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Title:
Maximum profit limitation on meat-packing industry
Place:
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Date:
1919

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MAXIMUM PROFIT LIMITATION ON MEAT-PACKING INDUSTRY

U.S. Congress. Senate. Committee on Agriculture and Forestry

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MAXIMUM PROFIT LIMITATION ON MEAT-PACKING INDUSTRY

LETTER FROM FEDERAL TRADE COMMISSION

IN RESPONSE TO

SENATE RESOLUTION OF SEPTEMBER 3, 1919

SUBMITTING

A REPORT OF THE RESULTS OF A SPECIAL INVESTIGATION OF THE REASONABLENESS OF THE MAXIMUM PROFIT LIMITATIONS FIXED ON THE MEAT-PACKING INDUSTRY BY THE FOOD ADMINISTRATION

SEPTEMBER 25, 1919.—Referred to the Committee on Agriculture and Forestry and ordered to be printed

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MAXIMUM PROFIT LIMITATION ON MEAT-PACKING INDUSTRY.

To the President of the United States Senate:

Sir: The Federal Trade Commission has the honor to make herewith report to the Senate in the matter of Senate Resolution 177 (Mr. Norris):

In the Senate of the United States.
August 23 (calendar day Sept. 3), 1919.

Resolved, That the Federal Trade Commission be, and it is hereby, instructed to inform the Senate whether said Federal Trade Commission, prior to July 1, 1918, made a special investigation of the reasonableness of the maximum profit limitations fixed on the meat-packing industry by the Food Administration; and if such investigation was made, that the Federal Trade Commission be instructed to report to the Senate its conclusions and findings based thereon.

The Federal Trade Commission, by direction of the President, did make such examination, and on June 28, 1918, made report to the President of the United States.

On July 8, 1918, the Hon. Herbert Hoover, United States Food Administrator, commented upon the report made by the Federal Trade Commission in a letter addressed to the President, together with a covering letter, and on July 20, 1918, the Federal Trade Commission prepared a memorandum on the comments of Mr. Hoover. This latter, prepared in the form of a proposed letter to the President of the United States, was not then sent to the President at that time, but its form was confirmed by the commission and represented the commission's opinion at that time. The letter was not sent to the President at that time for the reason that its contents were orally discussed and the matter seemed to be closed.

At the suggestion of representatives of the Food Administration, the commission is including in this return to the Senate Mr. Hoover's letters of July 8, and in order that the file may be complete the commission has deemed it proper to include its memorandum of July 20, 1918.

There is also included three exhibits, being reports independently made by (1) the accountants of the Federal Trade Commission; (2) by the public accounting firm of Perley Morse & Co., New York, certified public accountants, and (3) a report in which both the public accounting firm, the Federal Trade Commission's accountants, and Mr. Walter Y. Durand, a member of the Federal Trade Commission's economic staff, unite. These three exhibits contain the data upon which the report to the President of June 28 was based.

The report of the Federal Trade Commission to the President, the letters of comment by Mr. Hoover, and the commission's memorandum follow, and to this report are annexed the three exhibits above identi-

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fied. The report of the Federal Trade Commission to the President is as follows:

FEDERAL TRADE COMMISSION,
Washington, June 28, 1918.

SIR: On May 27, 1918, the President's committee on meat policy in its report to you suggested that the Federal Trade Commission report to you before July 1 on the reasonableness of the present profit regulation of meat-packing companies as imposed by the Food Administration.

Immediately upon your direction that this be done, the commission undertook the task, and finds:

I. That the maximum profits for the five largest packers under the Food Administration regulations are unreasonably high. These rates of profit are estimated to be from two and one quarter to three times as great as those earned in the prewar years of 1912, 1913, and 1914.

II. That the plan of regulation makes impossible adequate certification; so that, to safeguard the public interest, the plan should be changed.

Supplementing these conclusions, the commission makes the following specific recommendations:

(1) That the present segregation of the business of the packers into classes be discontinued, and, for the current year at least, the regulation apply a single rate to the licensee's entire business, including foreign business and domestic subsidiaries and affiliations, without segregation or exemption of any kind.

(2) That net worth (actual invested capital represented by stock issued and surplus) as of November 1, 1917, be the basis upon which the allowed rate of profit be computed for all packers, large and small, and that gross sales as a basis, as well as "net investment" which now applies only to the five chief packers, be discontinued. "Net investment," including as it does borrowed money, may be subject to abuse by reason of excessive borrowing, and is a very difficult figure to certify to; while "net worth" is simpler, fairer as between the different packers, and more just to the public.

(3) That the rate be a sliding scale, based on volume, in weight, of animals slaughtered; thereby stimulating production of meats without directly encouraging expansion into other lines.

(4) That the normal rate for the five chief packers be 7 per cent on net worth, with one-half per cent increased allowance for every 10 per cent increase in weight slaughtered, and one-half per cent decrease in rate for every 10 per cent decrease in weight slaughtered; the maximum profit allowed not to go above 9 per cent. It is probable that this rule would result in about 8 per cent, which is 1 per cent more than their actual prewar earnings.

(5) That the maximum allowed the smaller packers be 9 per cent, increasing on a sliding scale to 11 per cent, but without a decreasing scale.

(6) That profits in excess of the prescribed rates be either turned over to the Treasurer of the United States or applied against future Government purchases.

(7) That all meat packers, as well as slaughterers, be included within the regulation, except that no licensee doing an annual business of less than $500,000 be subject to Federal limitation of profits. (The minimum limit for Canadian packers is $750,000.)

In reaching these conclusions and recommendations the commission has been assisted by a committee of three of its staff, to which committee was assigned the task of collecting the pertinent facts bearing on the situation. The following reports of the committee are inclosed herewith, and in them will be found a further development of the various points already raised:

(1) Final report of the committee signed by Messrs. Walter Y. Durand, Stuart Chase, and Perley Morse & Co., certified public accountants.

(2) Individual report of Perley Morse & Co.

(3) Individual report of Stuart Chase.

In connection with these reports the commission has on file supporting data and exhibits (notably a full transcript of hearings in which Mr. Morse examined the officers of the five chief packing companies in regard to the present regulations), and will be glad to submit, on request, such additional material as may be necessary to a more complete understanding of the situation.

Very respectfully,

WILLIAM B. COLVER, *Chairman.*
JOHN FRANKLIN FORT, *Commissioner.*
VICTOR MURDOCK, *Commissioner.*

The PRESIDENT,
The White House, Washington, D. C.

The letter of Mr. Hoover commenting on the foregoing, together with Mr. HOOVER's covering letter, is as follows:

JULY 8, 1918.

DEAR MR. PRESIDENT: I am inclosing you rather a lengthy letter in reply to the Federal Trade Commission's report on the Food Administration maximum profits allowed the packers. I have the feeling that if the Trade Commission report is made public, then this reply, in justice, should be given coincident publicity. I do not, however, believe that any useful purpose is served by public ventilation of interdepartmental disagreements as to governmental policy.

The matters at issue are matters of considerable importance and principle. If Congress passes sufficiently strong excess-profits legislation, it will automatically correct the situation and meet the views of both the Trade Commission and ourselves. If Congress does not do so, I am afraid you will need to make some decision in matters of principle.

My proposal is, therefore, that the whole matter shall be laid aside until the action of Congress is determinable. If, however, you think it desirable to have the matter inquired into at once, I would like to suggest that the Federal Trade Commission report, together with the letter which I inclose, should be submitted to some independent person, say, Mr. Baruch or ex-Gov. Stuart, of Virginia, both of whom could advise upon the matters of principle involved without necessarily entering into details of fact.

Yours, faithfully,

(Signed) HERBERT HOOVER.

The PRESIDENT OF THE UNITED STATES,
The White House.

JULY 8, 1918.

DEAR MR. PRESIDENT: I beg to acknowledge the report of the Trade Commission, which you have so kindly forwarded to me, upon the effect of the Food Administration regulation of the packers' profits.

I realize fully that in the discussion of this matter any sentence uttered that can be interpreted as in support of profits to the packing industry subjects one to the charge of corrupt influence, and, on the other hand, I recognize equally the easy road to popularity through denunciation of these profits. It is, however, our duty to separate the emotional aspects in these matters from justice and national necessity to secure war results.

1. At the initiation of these regulations last October we called upon the Federal Trade Commission for information and advice, and members of the commission participated in the discussions with the packers which led up to the final regulations. Mr. Davies, who conducted the investigation of the packers and who participated in these discussions, has since made the statement:

"The 9 per cent limitation of profit on the most efficient meat-packing plants is out of all proportion to the much larger profits made by the relatively similarly efficient steel and copper producing agencies."

During the month of March, when it appeared that the profit limitations set out by the Food Administration were proving to be possibly larger than was anticipated, we requested through you that the Trade Commission should investigate the working of the regulations and advise as to their fairness, and we arranged that they were to take over the auditing of the accounts to determine the accuracy of the packers' profit statements.

2. The initial regulations were formulated on the basis that they should limit the maximum percentage or turnover to a figure no greater than the prewar average, with the further limitation that the bulk of the business—that is, the most business—should not earn over 9 per cent, and that the specialty business involving foodstuffs should not earn more than 15 per cent. Certain classes of business were excluded altogether—that is, the businesses in foreign countries and nonfood businesses, such as sporting goods, banks, and manufactures into which foodstuffs did not enter, all these being outside the legal function of the Food Administration. The application of the 9 per cent limit fell upon 75 per cent of the regulated business, the meat business plus transfer value of by-products and 15 per cent limitation applied to the specialty business and completion of by-products. These percentages were computed upon the total capital used by the packer in these businesses, including borrowed money.

3. The Trade Commission report advises that the Food Administration should include all businesses (although this is not legally feasible), and that a flat maximum of profits should be imposed of 7 per cent plus 1 per cent additional for each 10 per cent increase in volume of weight of animals killed up to a maximum of 9 per cent. The prospective business during 1918 would probably allow the packers to realize the full 9 per cent. The Trade Commission basis, however, prescribes that borrowed capital should be excluded from calculations of earnings.

4. Taking as a basis the tables accompanying the report of the Trade Commission and excluding the nonfood and foreign business, and combining all of the five great packers, we find the following essential figures:

Total investment	$853,219,000
"Net worth"	389,885,000
Consequently borrowed capital	468,334,000
Total estimates of Food Administration maximum profit	87,443,000
Less interest	21,407,000
Net earning	66,036,000

The profits are gross, without deduction of taxes, which would amout to about $16,000,000, leaving about $50,000,000 net. The Trade Commission's allowance of 9 per cent on "worth" as applied to the above figure of $389,885,000 would give a net earning of $35,089,650. Whether this is before or after taxes, we do not know, but assume from the text that it is net for dividend purposes. We would submit that the estimated interest figure given in the above table is $2,000,000 less than the actual necessary payment on a 5 per cent basis and that therefore the Trade Commission's recommendation would call for a reduction in the maximum earned on this class of business of about $29,000,000 without taxes, or about $13,000,000 if their figures are net. This would imply a reduction of about 40 per cent in one case or 20 per cent in the other, and therefore makes it difficult to understand the statement that the Food Administration regulation allows the earning to be from 2½ to 3 times as great as normal. This probably arises from the assumption that the Food Administration could control outside profits—which are estimated at $25,000,000 per annum for the five packers.

5. The combined five packers will, in 1918, probably kill 12,000,000,000 pounds, live weight, of animals, resulting in 7,000,000,000 pounds of meat products. A profit of one cent a pound would be $70,000,000. Therefore the possible profits under the Food Administration regulation are less than one cent a pound and the reduction proposed by the Trade Commission will amount to about one-third of a cent per pound. It is necessary to emphasize this for the producing public may be misled into the belief that the bare volume in these figures—large as they are—will have actual and tangible results in reducing the cost of living. The fact of the case is, that one-third of a cent per pound seldom reflects into realization in the hands of the subsequent distributing trades after the meat has left the packer.

6. The Trade Commission has the feeling that there is little or no risk attached to these enterprises and that therefore their earnings should be reduced to practically the terms of a public utility. We feel that they have overlooked certain great risks. Something like $250,000,000 invested in food stocks are being carried at high prices and would depreciate 30 per cent if communications with Europe were cut off 30 days, or if the production program in force should outrun the meat demands and there should be a fall in the animal market. An increased shipping program that would open other food markets to the Allies would have the same effect.

7. The Food Administration regulations permit earnings upon borrowed as well as packers' own capital; whereas, the Trade Commission proposes that no profits should be allowed on borrowed capital. This appears to us to strike at the base of most business enterprises. As we understand it, a large part of the commerce and trade of the country is founded on the earnings of an excess sum on borrowed capital over the bare interest cost and we feel that if this principle proposed by the Trade Commission were laid down as a precedent, it would produce an absolute state of panic in the United States. This industry must borrow money largely on short-time paper to carry the large reserve stocks now created for the Army and the Allies, if they are to be continuously provided for. We are confident if this question were submitted to any group of competent advisers they would affirm that businesses in general, and this business in particular, must earn a profit over and above interest charges on actual capital borrowed.

8. The food strategy necessary to the handling of war issues has involved the increase in our exports to the Allies and our Army and Navy by over 250 per cent. In order that we should be prepared for any emergency it has been necessary to call upon the packers to increase their stocks in storage. Furthermore, the program of stimulation of production, particularly the pork so critically needed for war purposes and the maintenance of a stable minimum price on hogs, has involved the packers in much larger stocks than would normally be acquired. All of this has necessitated an increased borrowing on the part of the packers that would not have been called for had they conducted their business in the normal manner. Therefore the compensation of the packers must bear some relation to their borrowed capital.

9. We must recognize that this great centralized industry is the cheap producer, and that an administrative limitation of maximum profits in certain of their specialty businesses that will reduce them to popular ideas of earnings will throw into the hands of these centralized institutions all the business in these specialties by crowding out high-cost producers, and thus will eventually reduce production or aggrandize monopoly. We can not agree to the answer to this argument in the report as follows:

"If it appears that the big packers can operate these specialty businesses more effectively than the independents, it is sound war-time efficiency to let them do it. The only danger in the situation would be the failure of the Government to continue its regulation of the packers and their affiliated companies after the war."

It is our belief that one of the greatest dangers to the whole of the food trades of the United States is the further expansion of these big packing industries and the elimination of smaller business and individual enterprise. It is not sound war-time efficiency to enable a monstrous growth of this kind to destroy individual enterprise of the United States on the mere hope that regulation of the industry will continue after the war. By that time the competitors will all be dead.

10. There is one prime difficulty in all regulation of profits in advance. Such advance regulation must provide for stimulation in production, give an incentive to serve war aims, and must provide sufficiently wide margins to cover all possible risk. If the concern regulated is so fortunate as to come through without incurring losses from the risks the profits may be inordinate. Having narrowed the possible profits of the packer to less than 1 cent a pound in protection to producer and consumer, our point of view was to encourage him to follow the national food strategy at his own risk.

11. In calling upon the Trade Commission to reexamine this problem, we had in view some attempt to further regulate down the possible maximum profits of the packers.

Since that time proposals have been formulated in Congress to enact further strong excess profits legislation. Such legislation would be much the most satisfactory remedy. The Food Administration regulations having in some degree accomplished stability in the market, having stimulated production and served war ends and eliminated vicious speculation, should be broadly supplemented by tax legislation that would restore to the public any inordinate earnings that might be secured by the more fortunate manufacturers This method also has the great advantage of equalizing situations between different manufacturers, which is one of the objects sought by the Trade Commission plan.

12. An advance profit regulation operates, if too strictly drawn, to curb incentive, to destroy production, and to limit efficiency. The sound method, if possible, is to give a fairly loose profit regulation, sufficiently strict to prevent speculation, stabilize price levels, and then, by taxation, to appropriate to the Government any extraordinary profit that may have arisen. There is also a psychological point of great importance; any given business enterprise would willingly pay in the shape of a tax whatever may have been its extraordinary profits. But if its profits are limited in advance to the same sum, the same enterprise will feel it is restricted, unable to protect itself against risks of loss and the reaction will damage the efficiency and courage in the conduct of this enterprise.

In conclusion, we are not in disagreement as to the fact that the packers may earn too large profits under the regulations. We are in disagreement as

to the method of establishing regulation and perhaps as to the actual percentage. On the other hand, we feel that the whole matter can quite well be deferred until the character of the action now being taken by Congress can be determined. If it should prove ineffective to accomplish these ends, it would be necessary to revise the regulations and I will take it up immediately upon my return from Europe.

I have written a letter to Senator Simmons, at his request, on the whole relation of a properly founded excess profits tax in its bearing on regulation of industry, which expresses more fully the views which we have formulated in this matter, which I transmit herewith.

Yours, faithfully.

HERBERT HOOVER.

The PRESIDENT OF THE UNITED STATES,
The White House.

The memorandum of the commission, of July 20, 1918, in the form of a letter to the President, but not then sent, is as follows:

FEDERAL TRADE COMMISSION,
OFFICE OF THE CHAIRMAN,
Washington, July 20, 1919.

DEAR MR. PRESIDENT: It is with reluctance that we address you in the matter of the commission's report to you under date of June 28, 1918, and Mr. Hoover's letters to you apropos that report.

It may save your time if we restate briefly the history.

I. At Mr. Hoover's request on March 26, 1918, a commission was appointed by the President to consider the Food Administration's regulation of the meat packers.

II. On May 27, 1918, the commission unanimously reported to you.

III. Among other suggestions was one that the Federal Trade Commission report to you before July 1, 1918, on the reasonableness of the present profit regulation of the meat-packing companies as imposed by the Food Administration.

IV. On May 27, 1918, the President approved the report of the commission and directed that this and other work suggested be undertaken by the commission.

V. On the same day, the Federal Trade Commission was notified of your direction by Mr. Hoover.

VI. On June 28, 1918, report was made to you as to the reasonableness of the profit margin under the present regulations. The commission found that the packers' maximum profits were unreasonable and suggested certain modifications of regulation.

VII. On July 8, 1918, Mr. Hoover addressed two letters to you concerning the report of the commission. Mr. Hoover's letters seem to revolve around a question of publicity. This is unfortunate. The commission's report made to you at your direction was not made with an eye to public reading but to the end that your direction made at Mr. Hoover's request might be faithfully fulfilled to the best of our ability.

We agree that no "useful purpose is served by public ventilation of interdepartmental disagreements." We know of no such a disagreement here. Certain regulations were in effect. It was questioned whether or not they might in the public interest be amended. We suggested certain amendments. That seems to end our connection with the matter.

We have not suggested that our report or any part of it be made public, and it would seem from your letter of July 8 that a confusion arose between our report as to maximum profits dated June 28, 1918, and that part of our report on the general food investigation having to do with the meat-packing industry, made to you under date of July 3. It was this latter report that seemed to be a proper matter to be made public in that it suggested certain legislation and naturally would be a public document. The report of June 28, on the reasonableness of the maximum profits suggested amendments to regulations which might be made or rejected by the Food Administration without additional legislation and hence might properly be a departmental matter and not a public one.

The Federal Trade Commission's report on maximum profits was not made in a spirit of criticism, but was made in good faith and upon invitation. It was desired that it might be helpful. Having been made, its only value consists in what helpfulness may be extracted from it.

In the longer of the two letters of July 8, Mr. Hoover says:

"10. In calling upon the Trade Commission to reexamine this problem, we had in view some attempt to further regulate down the possible maximum profits of the packers.

"Since that time proposals have been formulated in Congress to enact further strong excess profits legislation. Such legislation would be much the most satisfactory remedy. * * * "

It appearing that the report requested is no longer desired, the commission would cheerfully withdraw it were it not for the fact that two questions have been raised by Mr. Hoover's letters. These questions are of such serious import that we ought not in good conscience be bound by silence.

(1) The doctrine is laid down that in computing return, borrowed money shall be taken in as invested capital.

It is stated in Mr. Hoover's longer letter on page 6 that the declaration of the principle that borrowed money should not be included as invested capital, "would produce an absolute state of panic in the United States;" and further, it is stated that "if this question were submitted to any group of competent advisers" it would be decided adversesy to the position takei by the commission.

After diligent inquiry we can find no competent authority in the United States that takes a view contrary to that expressed by the commission. We quote Col. Robert H. Montgomery, pages 572–573, Income Tax Procedure, 1918, a standard and accepted work:

"Capital in a commercial sense is what remains after debts are provided for. A man with no capital of his own may borrow $1,000 and lose it in his trade or business. He still owes it. As before, he has no capital, and now he does not even have economic capital.

"Borrowed money is the capital of the lender, not of the borrower. Much has been said in favor of considering borrowed money as invested capital, but the author thinks that the arguments used are fallacious and impracticable. If banks were to consider all deposits as invested capital, a curious situation would arise. Its depositors might not like the idea.

"The inclusion of interest as an expense of the business is a sufficient recognition of the use of borrowed money by the borrower.

"In the case of corporations where the limitation on interest deduction may operate to prevent credit for the full amount paid, there is, of course, an injustice, but the remedy is to remove the restrictions on the interest allowance, not to consider borrowed money as capital."

Being asked if there was any more extensive written authority on this subject, Col. Montgomery has told us that since there is not even a schism on this principle and since it is of universal acceptance, its mere statement was considered by him to be sufficient in his textbook.

Col. Montgomery is an attorney, a certified public accountant, a former president of the American Association of Public Accountants, a professor of accounting in Columbia University and at present the expert adviser of the War Department in such matters as well as the War Department's representative on the price fixing committee of the War Industries Board.

The second question is raised by the fact that running through both of Mr. Hoover's letters addressed to you under date of July 8, is the thought that legislation providing for stronger excess profit taxes will "automatically correct the situation and meet the views of both the Federal Trade Commission and ourselves (the Food Administration)."

The Federal Trade Commission dissents wholly and entirely from this theory. Before excess profit taxes may be collected from business concerns, excess profits must first be taken from the consuming public or from the Government of the United States in the form of inflated prices. It is not business but the people both as consumers and taxpayers and bond buyers who provide the money collected indirectly as excess profit taxes.

Our understanding is that the excess profits tax was not a revenue device, primarily, but a device designed, first, to discourage profiteering, and, second, to equalize any inequity which might be worked in the application of general price-fixing rules where, in order to secure production from high-cost concerns, prices had been fixed so high as to give undue profits to low-cost concerns. It is not our idea that prices should be fixed high so as to lo yield excess profits taxes but that excess profits taxes are collected to prevent fixed prices from yielding confirming earnings in the hands of stockholders.

We dissent from the theory of taking back 30 or 50 or 60 or 80 cents from a dollar improperly taken from the people as consumers or from the Government. It is attempting to lift one's self by his boot-straps and losing 60 or 40 or 20 per cent of the energy employed. A price structure built upon such a theory as this can not and should not be tolerated by the people of the country.

Aside from the impossibility of such a principle viewed from the public standpoint, it has a vicious effect upon business itself. The reflect shows itself in tax evasions and worst of all, in inviting and encouraging wasteful and extravagant business operations. When a business reaches the point that its excess profit tax will operate to take away a considerable part of its surplus earnings, it inevitably is tempted and in many many cases the temptation has proven irresistible, to spend extraordinary sums in unnecessary expenditures. These take the form of advertising looking to the building up of present or future good will or of repairs and betterments not presently needed or made with an eye to the future and in anticipation of a return to peace-time basis. Such an expenditure is made on the theory that out of every dollar so spent the Government must contribute unknowingly from 60 or 20 per cent of the cost.

Since the Government takes 50 per cent of the meat product of the packers and all the packer's heavy hides, and since the civilian public consumes the remaining 50 per cent of the meat product, we are wholly unable to see that any tax legislation which would cover into the United States Treasury some percentage of excess profit would thereby "restore to the public any inordinate earnings that might be secured."

The foregoing is written to you in order that you may know the principles to which we are holding and with the hope that we may be advised if in your judgment we are in error. Manifestly, this letter is not written with an idea that it is a public document, and in this connection we would say that we can see no reason for the publication either of our report to you of the maximum profits of the packers under food regulations, or either of Mr. Hoover's letters founded thereon.

If, however, the Federal Trade Commission is asked by Congress to make any contribution to the discussion as to excess-profit tax legislation, it will feel constrained to make reply along the lines herein indicated, in which case we will find ourselves not agreeing with the doctrines laid down by Mr. Hoover in his letter to Senator Simmons, reference to which he makes in his letter to you. Such a statement on your part, however, will not be made with any idea "that it is a public ventilation of interdepartmental disagreement," but rather the reply that our conscience and our sense of public duty will require us to make.

By direction of the commission.

Respectfully,

WILLIAM B. COLVER, *Chairman.*

THE PRESIDENT,
White House.

The three reports of the expert accountants referring to the above are attached hereto as exhibits.

By direction of the commission.

Respectfully,

VICTOR MURDOCK,
Acting Chairman.

AUGUST 24, 1919.

EXHIBIT I.

FEDERAL TRADE COMMISSION,
Washington.

GENTLEMEN: Having been directed by you to ascertain the facts pertinent to the question of the reasonableness of the maximum profit limitations imposed on meat packing and slaughtering companies by the present regulations of the Food Administration, the undersigned beg to report the results of their investigation as follows:

THE PRESENT REGULATIONS.

The present profit regulations, a copy of which is attached as Exhibit I, are in salient features as follows:

1. The slaughtering companies of the country are grouped in two divisions, the first comprising all those having annual sales of $100,000,000 or over, and the second all remaining licensees. The only companies in the first division are Swift & Co., Armour & Co., Morris & Co., Wilson & Co. (Inc.), and Cudahy Packing Co.—commonly known in the trade as the "Big Five."

2. All companies, large and small, are limited to a profit not to exceed 2½ per cent of the amount of their gross sales in the meat business.

3. The five companies in Division I are further subjected to limitations of profit on their investment in certain lines of business. For the purpose of the regulation, the total business of the five companies in Division I is segregated in three classes:

Class I.—The meat business and the more important by-products, both food and nonfood, including for example, hides and pelts, fats, lard, sausage, canned meats, offal, and including the operation of private car lines.

Class II.—Specialty business, including leather, soap, commercial fertilizer, glue, and other businesses using appreciable quantities of animal raw materials.

Class III.—All other businesses, including poultry, butter, eggs, cheese, fresh and canned fruits and vegetables, cotton seed oil, lard compounds, and substitutes, investments in stock yards, and other outside companies, in foreign slaughtering companies, etc.

4. The basis on which the limited profit rates on investment of the "Big Five" are calculated is the total "net investment" (capital stock, surplus, and total interest-bearing obligations of all forms) for the year employed in the business for the respective classes.

5. The maximum profit to which the "Big Five" are limited on investment, in addition to the limit of 2½ per cent on sales in the meat business, is:

Class I. Meat business, 9 per cent.
Class II. Specialty business, 15 per cent.
Class III. All other business, no limitation.

INVESTIGATION BY ACCOUNTANTS.

Immediately upon receiving the President's direction to report on the reasonableness of the meat packers' profits, the commission assigned to the task of collating the pertinent facts in this matter to a committee of three of its staff consisting of Mr. Walter Y. Durand, in charge of its meat investigations, Mr. Stuart Chase, its accountant in charge of the determination of uniform accounting methods in the meat-packing industry, and Messrs. Perley Morse & Co., certified public accountants, of New York, employed especially for this work. Mr. Harvey S. Chase, of Harvey S. Chase & Co., certified public accountants of Boston, also aided in a consulting capacity. Approaching the problem from different angles and preparing their statements independently, each of these investigators reached results in practical harmony.

The summary reports of Mr. Stuart Chase, with whom Mr. Samuel W. Tator of the commission's accounting staff collaborated, and of Perley Morse & Co. are attached as Exhibits II and HI, only a digest of them being here stated. In connection with Perley Morse & Co.'s report is a full transcript of hearings in which Mr. Morse examined the officers of the five chief packing companies as to their suggestions regarding change in the regulation, and as to the facts of their business pertinent to this inquiry. These facts and the views of the packers have been carefully weighed by your committee in reaching its conclusions.

Digest of report of Perley Morse & Co., certified public accountants.—The report of Perley Morse & Co. suggests a permanent plan, and for immediate practicability a temporary plan, substantially as follows:

Suggestion for permanent plan:

1. Would regulate by classes, with differential between classes, but no unregulated class.
2. Would base rate on net worth, not allowing profit on borrowed money.
3. Would adjust inequalities in valuation.
(*a*) Plant at cost plus assessments for improvements.
(*b*) Buildings and machinery at cost less a uniform depreciation.
(*c*) Inventories at cost.
(*d*) Reserve from surplus for increased cost of replacing fixed assets.
4. Would aggressively investigate control of subsidiary and related enterprises and provide for records enabling a consolidated balance sheet, the elimination of intercompany profits, and the prevention of profit concealment.
5. Believe present estimated rate of profits too high.
6. Recommend rate of 10 per cent on entire investment (net worth) as generous, with provision for replacement as in 3 (*d*).

Suggestion for temporary plan:

1. Believe permanent policy outlined above can not be adopted at present because as a prerequisite we must do certain things requiring time and full investigation, namely—
(*a*) Certify investment by classes.
(*b*) Establish uniform accounting methods.
(*c*) Determine subsidiary and allied enterprises.
2. Recommend as temporary plan regulating business as whole without segregation of classes, on the basis of net worth, and at the rate suggested for the permanent plan.

Digest of report of Stuart Chase, certified public accountant, and Samuel W. Tator.—The report of Mr. Chase and Mr. Tator, attached as Exhibit III, may be briefly outlined as follows:

Reasonableness of maximums:

1. The rate of earnings on net worth allowed under the present regulation, based on estimates, is as follows:
Class I, 13 to 17 per cent (covers from 60 to 78 per cent of investment).
Class II, 24 to 34 per cent.
Class III, 28 to 42 per cent, omitting Armour, whose figures are not comparable because excluding foreign business.
(Classes II and III cover from 22 to 40 per cent of the investment.)
2. The average rate allowed on net worth for all classes is about 19 per cent.
3. The packers estimated rate for 1918 is two to three times their prewar rate.
4. Conclusion. If the present form of regulation is continued, the rate allowed on Classes I and II should be lessened.

Advisability of regulation by classes:

1. It is difficult without months of work by a large force of experts—
(*a*) To apportion investment by classes.
(*b*) To determine transfer prices.
(*c*) To apportion overhead.
(*d*) To apportion branch-house expense.
(*e*) To prevent diversion of profits.
2. Conclusion. Regulation by classes should be abandoned and one rate should be applied to total business.

Suggested improvements in other features of the regulations:

1. Eliminate the allowance of profit on borrowed money.
2. Establish "cost less depreciation" as principle of valuation of fixed assets, with depreciation sufficient to allow for increased cost of construction.
3. Modify the present tacit sanction of unlimited capitalization of profits.
4. Consider the Canadian Government regulations for further detailed suggestions for improvement.
5. Examine question of inventory valuations and establish uniform procedure.

Proposed method of regulation:

1. Recommend a sliding scale plan for packers in class of $100,000,000 or over.
(*a*) Allow profit of 10 per cent on net worth if weight volume of animals slaughtered exceeds weight volume in 1917. Allow 1

per cent additional profit for each 10 per cent increase in weight volume up to a maximum of 15 per cent. For each decrease of 10 per cent in weight volume, deduct 1 per cent from allowed profit down to a minimum of 7 per cent profit.

2. All excess profits to go to the Government, but an inventory reserve to be set up from this excess profit out of which the Government shall pay actual inventory losses.

PURPOSES AND PRINCIPLES OF PROFIT LIMITATION.

One of the purposes of a profit limitation on foods, the committee takes it, is to prevent profiteering, and to effect a reduction in prices or at least prevent their rising unjustifiably, to the end that the spirit and resources of our people may be devoted without reservation or impairment to the successful prosecution of the war. The second purpose is to regulate in such a way as to increase production of food. Not only is it needful that the spirit and the strength of the country shall be heightened to greatest pitch in the production of all war supplies, but the production and distribution of food, the very thing which is to be limited in profit, must be stimulated and assured.

In addressing itself to these public objects, regulation should also aim to be just to the packers and fair as between one of them and another. As the seriousness of America's part in this war comes home to all of us, the business men of the country will not seek a generous profit but simply a just one, ready without undue subsidy to devote their energies toward greater production. The packers assured a just return will not be heard to ask that they be allowed to continue extending their business wholly out of profits, but at the stabilized rates will see that they can readily arrange the financing of such new capital as may be necessary to the development of their share of the war work.

One of the principles which it seems to the committee underlies the matter of the reasonableness of a profit limitation is its relation to normal returns in a competitive industry in times of peace. Another is the extent of risk involved in the nature of the business, and the effect of war conditions on that risk. Another principle is that when businesses expand greatly in volume, the rates of profit on investment tend to fall, and rightly so, especially when as here the businesses of these large concerns have reached such a magnitude that they are their own insurance, on the principle of averages, against the vicissitudes a small concern is subject to. When, as here, the increased volume of business is caused by the war and is in no way the result of the enterprise of the packers, this principle is especially applicable. Again, the profit regulation should not be thrown in the form of a rate on sales, because this is a temptation to increase prices in order that the allowed rate may be secured on a larger money volume. The temptation here is comparable to that of a man with a "cost plus percentage" contract. Finally, the regulation should accord throughout with sound accounting principles, and any discretion as to the reasonableness of the rate should be exercised frankly and openly at a single point—namely: what the rate shall be. It is safest and clearest to keep on a sound accounting base, and to make any adjustment that circumstances may in justice require by simply raising or lowering the allowed rate. For example, a depreciation rate should be calculated with reference to cost and to estimated life of property without allowance for increased replacement cost, the increase in construction cost being provided for, rather, out of new capital which shall in turn be depreciated.

THE COMMITTEE'S FINDINGS.

The committee finds that the present regulations of the meat packers' profits, though considered with great care by the Food Administration at the time of their adoption, and in many respects sound in principle, have proved impracticable to administer and do not put as great a limitation on profits as is necessary in the public interest. It finds that the maximum rates of profit established by the regulation are unreasonably high and that in order to make reasonable rates effective and enforceable the plan of the regulation as well as the permitted rate of profit should be changed.

Present regulation by classes of business impracticable.—As to the plan of the regulation the committee is of the opinion that the attempt to segregate the packers' business into classes with varying profit limitations, though perhaps more scientific than a flat rate on their total business, will not result in any effective limitation until the segregation of their investment shall have been accurately established by classes. In any event, if the plan of classification of business is followed no class of their business should be exempted from profit limitation. The committee finds that the packers' books do not now show the segregation of investment by classes of business. The present regulation is proceeding on a dangerous basis in that the figures of segregation as estimated by the packers are open to serious question, and that correct classification of investment will require months of intensive work. It was perhaps chiefly in recognition of this danger that the Food Administration, prior to the recommendations of the President's Meat Committee, suggested that the Federal Trade Commission undertake the determination of uniform accounting methods for the packers, including a thorough examination of their investment in different lines.

It is the committee's belief, therefore, that for the present year at least the profit regulation of the packers be based on their business lumped as a whole, without segregation or exemption of any kind. It is the opinion of the committee, further, however, that the accounts of the packers should be subjected to sufficient examination and study to determine with substantial accuracy the true investment, cost of production, and profits, in which connection, a better basis can be arrived at for concluding whether any limitation of profits through classification of the business is preferable and practicable. One principle in particular seems to argue for the classification of the business and separate and distinct rates of profit in the different classes, namely, that the conditions of risk and competition or relative absence of competition in business undoubtedly vary somewhat between different classes.

Basis upon which return should be computed.—The rate of return should be based upon the net worth of the business, is upon capital

stock plus surplus. Net worth is the measurement of the stockholder's investment on which he is entitled to a return. Any other basis, such, for instance, as laid down in the present rules and regulations, which makes special provision for interest-bearing obligations as a part of investment is questionable, and in this case distinctly inadvisable. Such method provides an incentive to excessive borrowing, to carrying large amounts of unnecessary cash on hand, and to slow collection on accounts receivable. In the packing business the element of borrowed money does not jeopardize the interest of the stockholder, for packers' paper is usually covered by a liquid inventory, and is considered the best of security in banking circles.

Net worth is a figure which is readily computed and which remains constant throughout the accounting period. It is easily watched, requiring little audit, while the method now employed necessitates constant and exhaustive supervision throughout the period under review to prevent juggling of the amount upon which the return is based.

An allowance on net worth puts stockholders in all packing companies on the same footing, and by preventing one from profiteering, all are so prevented. The ultimate criterion of profiteering is, and necessarily must be, the return to the individual shareholder after all costs and interest obligations have been met.

The principles governing the computation of net worth are as follows: Land should be valued at cost, plus assessments for improvements; buildings and machinery at cost less depreciation; inventories at cost wherever it is possible to determine cost.

Risk.—The risk of the meat-packing business in general and particularly of the conglomerated businesses operated by the five principal packing companies is, in the committee's judgment, not large in peace times and is very slight indeed under present war conditions, which assure an almost unlimited market for most of the products and which reduce credit and commercial risks to a minimum.

In this connection it is to be observed that any rate of profit fixed as a maximum will in nearly all cases be actually also the minimum, because it may be safely assumed that under present conditions the packers will be able to earn all they are allowed.

Unreasonableness of present maximums.—The present maximum profits allowed licensees with sales of over $100,000,000 are unreasonably high. The allowed profit of 9 per cent on the total investment in Class I, as shown by the companies' own reports, means a profit of from about 13 to 17 per cent on the stockholder's investment in that class; the allowed profit of 15 per cent in Class II means from about 24 to 34 per cent on the stockholder's investment; while in Class III the reports of the packers so far rendered indicate a profit now being earned of from about 16 to 41 per cent on the stockholder's investment. Taking the business as a whole it appears that stockholders will be allowed nearly 20 per cent on their own investment after paying all interest charges. This is a rate which ranges from two and a quarter to over three times as great as that actually earned by them in the prewar years of 1912, 1913, and 1914, and very nearly as great as that earned in 1917—the most profitable year in all the packer's history.

	Armour.	Swift.	Morris.	Wilson.	Cudahy.
Estimated percentage of allowed profit on stockholders' investment (net worth) under present regulations:	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Class I	15.6	12.6	15.1	16.5	14.9
Class II	29.7	23.8	29.3	33.9	29.7
Class III	[1] 15.7	29.2	32.2	27.2	41.4
Total business	[1] 18.3	18.2	19.0	19.3	20.5
Allowed profit on common stock	30.9	37.6	[2] 305.5	31.0	51.6
Actual profit on net worth:					
Prewar average, 1912, 1913, 1914	6.2	8.3	6.8	([3])	7.3
War average, 1915, 1916, 1917	14.6	21.0	13.5	([3])	14.1
Year 1917	16.8	26.7	18.6	23.8	18.7

[1] Foreign business not included.
[2] Morris has not capitalized as have other packers.
[3] No figures available.

To allow the five great packers to earn a rate of return nearly three times as great as they enjoyed without noticeable dissatisfaction in times of peace is to grant a maximum which is unreasonable.

Effect on the packers and on their competitors.—The large packing companies under a reasonable profit limitation on their total business naturally will not lose any volume of tonnage in specialities to unregulated outside competitors charging a higher price. On the other hand, in the judgment of the committee, such outside competitors will not be unduly injured by the lower price that the packers' profit limitation may cause him to make. So far as these industries, if not already under effective Government regulation, are profiteering, the effect of limiting the profits of the large packers may be to place a salutary check on their outside competitors. If, however, there is sufficient demand for the products of the industry, two prices may rule in the market, the unregulated competitors being able to sell at a higher price than the packers ask.

The small packers, whose entire business is in most cases confined to slaughtering and meat packing, might under ordinary conditions be hard put to it to retain their volume of trade if the large packers should reduce prices on the meat products that are the only business of the smaller concerns. In these times the demand for meats is so great that it will, no doubt, enable the smaller packers to obtain a higher price in the same markets in which the Big Five might sell at a lower price. The commission nevertheless believes that to insure the position of the small packers, they should be allowed a higher maximum than is allowed the Big Five.

RECOMMENDATIONS.

The committee makes the following specific recommendations based upon a consideration of the various factors involved:

1. That no class of business engaged in by a licensee be exempted from profit limitation, not even the foreign business of these companies or their subsidiaries.

2. That the regulation be so devised that the earnings from domestic or foreign slaughtering and meat-packing concerns which are controlled by individuals who are large stockholders in licensed companies shall be considered as earnings of the licensee company, and subject to the profit limitation prescribed. This principle should

also be applied to such other businesses besides meat as in the discretion of the Food Administration is necessary and practicable.

3. That the rate of limitation, at least for the present year, apply to each licensee's business as a whole without variation in rate for the different classes of business.

4. That gross sales as a basis of the rate be abandoned both for the five largest companies and for the companies of Division II.

5. That the basis of the rate for all companies regulated be the same, namely, the net worth (capital stock and surplus) as of November 1, 1917.

6. That the allowed rates of profit on the above base be higher for companies in Division II than for the Big Five, and that in both divisions the allowed rates be on a sliding scale dependent on the volume, in weight, of animals slaughtered. This provision is designed to stimulate competition and to give an incentive for increased production of meats, without encouraging the large packers to further expansion in lines not directly connected with the prime business of slaughtering.

7. That the allowed rates of profit in Division I (the Big Five) be as follows:

	Per cent.
(*a*) In case volume in weight remains as in fiscal year 1917	7
(*b*) In case volume in weight increases up to 10 per cent	7½
(*c*) In case volume in weight increases up to 20 per cent	8
(*d*) In case volume in weight increases up to 30 per cent	8½
(*e*) In case volume in weight increases up to 40 per cent	9
(*f*) In case volume in weight increases over 40 per cent	9
(*g*) In case volume in weight decreases up to 10 per cent	6½
(*h*) In case volume in weight decreases up to 20 per cent	6
(*i*) In case volume in weight decreases up to 30 per cent	5½
(*j*) In case volume in weight decreases up to 40 per cent	5
(*k*) In case volume in weight decreases over 40 per cent	5

8. That the allowed rates of profit in Division II be as follows:

	Per cent.
(*a*) In case volume in weight remains as in fiscal year 1917	9
(*b*) In case volume in weight increases up to 10 per cent	9½
(*c*) In case volume in weight increases up to 20 per cent	10
(*d*) In case volume in weight increases up to 30 per cent	10½
(*e*) In case volume in weight increases up to 40 per cent	11
(*f*) In case volume in weight increases over 40 per cent	11

It is recommended in Division II that the decreasing sliding scale shall not apply.

9. That packers with annual sales in the year 1917 of less than $500,000, very few of whom are engaged in interstate commerce, be exempted for the present from the Federal regulation of profits.

10. That meat packers not engaged in the slaughtering business be regulated as well as slaughterers.

11. That special rulings allowing increased rates of profit for Division II packers be abolished.

12. That any profits in excess of the prescribed rates be either turned over to the Treasurer of the United States or applied as a credit against future Government purchases.

In subscribing to this report your undersigned committee desires to say that Dr. Francis Walker, chief economist, and Mr. Melville C. Wooster, certified public accountant, chief accountant, aided the committee with their counsel, Dr. Walker sitting with it in the drafting of the report and agreeing with it substantially except as to the use of net worth as a base and as to the rate. Mr. Perley Morse, certified public accountant; Mr. Percival S. Whipple of Perley Morse & Co., and Messrs. Samuel W. Tator and A. S. Kravitz of the accounting staff of the commission, have participated in gathering and considering the material and in drafting the report.

Respectfully submitted.

WALTER Y. DURAND.
PERLEY MORSE & CO.
STUART CHASE.

WASHINGTON, *June 24, 1918.*

EXHIBIT II.

[Perley Morse & Co., certified public accountants, 61 Broadway, New York. Telephone 1083, 1084, Rector. Cable address, "Standit."]

CASE No. 910.

JUNE 20, 1918.

FEDERAL TRADE COMMISSION,
Washington, D. C.

GENTLEMEN: In accordance with your instructions we have made an investigation of the profits of certain meat packers affected by the rules and regulations of the meat division of the United States Food Administration, and we submit herewith in relation thereto the following report:

CURSORY EXAMINATION ONLY.

The time allotted to us for the completion of this work forbade our going into details, therefore we confined our activities to the conferences with the commission's accountants at Chicago and to an examination of representatives of the firms of Morris & Co., Swift & Co. (Inc.), Armour & Co., Wilson & Co., and Cudahy Packing Co. The testimony of these concerns should be considered as part of this report.

PRESENT RULES AND REGULATIONS JUDGED BY PRINCIPLES INVOLVED.

The business conducted by the various packers is of a seasonable character and any figures computed on a period of less than a year are of questionable value as a guide by which to judge a year. Therefore, we have judged the present rules and regulations by the principles involved rather than by the bookkeeping results.

PRINCIPLE OF SEGREGATING BUSINESS INTO CLASSES.

The rules and regulations, article 2, section 1, demand that the business of the packers be divided into three classes, namely, class 1, class 2, and class 3. We agree with the principle of segregating the business into its component parts, but we do not agree with the present segregation and feel that it should be a great deal finer. It probably should extend to each class of business done. We believe that a greater rate of return should be allowed on some classes than on others, especially where there is unregulated competition; also as a stimulus for the further utilization of by-products.

TEMPORARY METHOD FOR REGULATION.

The segregation called for in the present rules and regulations or any other segregation does not seem possible at the present time, due to the lack of detailed information on the part of the commission's accountants, which would justify them in accepting or disallowing any segregation that the packers make. We suggest that this information be obtained immediately and the classifications be revised, or that as a temporary measure the business be regulated as a whole.

UNIFORM SYSTEM OF ACCOUNTING.

We heartily agree with the establishment of a uniform system of accounts for all packers. However, we appreciate the great difficulties attached to the development of it, due to lack of satisfactory information regarding the organizations of the various meat packers. A more aggressive policy of research and investigation should be followed in gathering the information necessary. There should also be an intensive study made of the present methods of the packers in order to determine the practical methods of cost finding and of transferring byproducts. These things must be done before it is possible to properly segregate the business and arrive at a true profit or loss.

THE RATE OF RETURN SHOULD BE BASED UPON NET WORTH.

The rate of return, we maintain, should be based upon the net worth of the business, that is, the capital stock plus the surplus. The net worth shows the stockholders' investment in the business, on which he is entitled to a return, and any other method, such as that laid down in section 7, making special provision for interest-bearing obligations, is wrong, such method serving only as an incentive to encourage excess borrowing. For the purpose of this regulation interest should be included as an expense before net profit is determined. That is the usual method of judging industrial enterprises. The stockholder is entitled to a return on his investment, and only on his investment, irrespective of the amount of money involved in the turnover of the business. If the business works on a big margin of borrowed money, that money is only incidental to the business and does not attach any additional risk to the individual stockholder, who is liable only to the extent of his investment.

INJUSTICE OF COMPUTING THE RATE OF RETURN ON THE PRESENT BALANCE SHEETS.

Before the figures of net worth that are equitable for the various companies can be arrived at, there must be an investigation of the policies pursued by them in the past. That they have been different is known, and to make a fixed return for all companies on their present book values is unjust. For instance, land and buildings have been appreciated from time to time by some and not by others. No two companies have used the same methods and rates of depreciation on identical articles, and it is doubtful whether there is any

fixed policy pertaining to renewals and replacements or repairs and alterations. The packers complain rightly of these inequalities and they will have to be adjusted before successful profit regulation can be had. (See testimony of Morris & Co., pp. 7 to 23; Swift & Co. (Inc.), pp. 135 to 140; Armour & Co., pp. 221 to 226; Wilson & Co., pp. 291 to 296; Cudahy Packing Co., pp. 330 to 334.)

COMPUTATION OF NET WORTH.

In computing net worth, land should be taken at cost, plus assessments for improvements. Buildings and machinery should be taken at cost, less depreciation, which depreciation should be uniform for identical articles in all concerns. Inventories should be taken at cost. There should be set aside from surplus a sufficient reserve for the increased cost of replacing of fixed assets over the original cost, and this reserve should be increased from year to year by a charge to operations. In the proposed readjustment of the present net worth this reserve for replacements will undoubtedly reduce the surplus of the companies to less than the present figure. This we consider equitable for the reason that this money should be tied up to take care of future replacements and should not be in a position where it can be paid out as dividends. Such procedure will tend to strengthen the financial position of the packing industries by providing for their future needs. The packers claim that they are compelled to build up big surpluses to take care of replacements, and if that is the case such surplus should be in a position where it can not be used for any purpose other than that for which it is intended. (See testimony of Morris & Co., Swift & Co., Armour & Co., appended hereto.)

TRUE COST AND TRUE PROFIT.

Inventories should be taken at cost, or if the market is below cost, a reserve should be set up to cover the difference. The present method followed by the packers and authorized by article 2, section 8 of the rules and regulations, not only results in anticipated profits, but also allows a return on such anticipated profits. If this suggested change were made it would not only cut down the return allowed to the packers, but it would offset to a certain extent the huge losses that they anticipate due to a slump in the market. (See testimony of Swift & Co. (Inc.) and Armour & Co., appended hereto.) For this reason, as well as for the purpose of transferring between departments, a practical method of cost finding should be determined upon, which should be uniform for all companies. The packers are skeptical about possibility of determining costs. We have never seen a business man who did not say, until it had been done, that his business was different from any other in the world; that cost finding for him was impossible; with any other business it might be possible, but with his, it could not be done. In the most complicated businesses successful cost systems have been installed, and we feel that the packing business is no exception to the rule. Several European Governments have applied them with success, and there is no reason why they can not be duplicated in the United States. True cost is the correct basis for the transference of by-products, and for the

valuation of inventories. It is, therefore, the criterion of true profits. True profits will never be known until true cost is known. The packers acknowledge the difficulty of ascertaining the market at times and the only way to satisfactorily overcome this, from the Government's standpoint, is to set a uniform rule for all packers to follow. Any other principle leaves open a chance to juggle profits.

COST-FINDING METHODS.

If test runs were made of a number of animals of one grade and the percentage by weight of the various parts determined, the ratio of the cost of the individual parts to the total cost of the animal would be the same as the market price of those parts is to the market price of the whole. This scheme is widely used where crude materials are broken up into various parts, notably in the petroleum industry.

SUBSIDIARY COMPANIES.

In determining the profits of any organization so complex as the packing industry, it is essential that not only the fundamental principles of accounting heretofore outlined be carried out, but also the more intricate combinations. Books and records of subsidiary companies must be systematized so that they can be readily consolidated with those of the parent company, and intercompany transactions and profits eliminated. The accounting method employed in the United States at the present time for the control of subsidiary companies is the greatest weakness in the science. It is proverbially, either through ignorance or through design, the seat of delusion. We cite the case of an organization that recently came to our notice where a proper consolidation of accounts of subsidiary companies very nearly doubled the stated profits of the organization in question. We hold that in the regulation of any industry the regulating body should be in a position to compel the inclusion of not only the 100 per cent controlled corporations, but also any interest less than this amount which has direct bearing on the industry under regulation. In this respect, sections 5 and 6 of the present rules and regulations should be liberally interpreted and rigidly enforced.

GENERAL.

Our examination of the packers developed the fact that they are satisfied with the present regulations, with the exception of some changes of classification. (See testimony.) They claim to be able to segregate their business to conform with the requirements of the regulation. We agree that it can be done, but we know that it will take considerable time and work to get it right. We believe that in the interest of all parties it should be done, but unless the Government intends to furnish the necessary facilities to see that it is done right, the best plan, we believe, would be to regulate the business as a whole. We do not favor the present method of an unregulated class, but we believe that all classes should be regulated. This does not necessarily mean that the profit on certain articles should be fixed, but the right to regulate should never be relinquished in the interest of those products which are regulated. If some portions

are regulated and others are not, it may result disastrously for the regulated articles and for competitors.

The packing business is not menaced by extraordinary hazards. We consider it among the best for stability. This is borne out by the enormous capital built up out of earnings by the various packers. The new issue of bonds of Armour & Co. ($60,000,000) was taken up over-night and oversubscribed 25 per cent.

If the figures submitted by the commission's accountants are correct, showing the estimated earnings on net worth in 1918 to be in the case of Armour & Co., 18.3 per cent; Swift & Co., 18.2 per cent; Morris & Co., 18.9 per cent; Wilson & Co., 19.3 per cent; Cudahy Packing Co., 20.5 per cent; we say that they are making too much money. If, after providing for the replacement of fixed investment as herein outlined, a return of 10 per cent were allowed on the entire investment, it would be a generous provision.

Respectfully submitted.

PERLEY MORSE & Co.,
Certified Public Accountants.

EXHIBIT III.

JUNE 18, 1918.

REGULATION OF PACKERS' PROFITS.

The report of the President's meat committee, dated May 27, 1918, specifies as follows:

> In the meantime the Federal Trade Commission should report upon the reasonableness of these maximums. If found reasonable, they should continue in effect until further notice. If found unreasonable, such maximum should be made effective as facts warranted.

Strictly interpreted, the above simply calls for an expression of opinion by the Federal Trade Commission of the reasonableness of the maximum profits now allowed the packers by the Food Administration regulations. No criticism is asked covering the philosophy of the regulation, or the assumptions upon which it is based. In the opinion of the undersigned, however, in addition to answering the concrete question as to the reasonableness of maximums, the Federal Trade Commission should comment upon the present regulation from the standpoint of policy, and should also be prepared to suggest an improved form of regulation.

In preparing the following report we have followed this general procedure, namely: The first section applies to the reasonableness of maximums; the second section criticizes the present regulations from a standpoint other than that of the rates allowed; the third section outlines a new form of regulation.

SECTION 1. REASONABLENESS OF MAXIMUMS.

The present maximum profits allowed licensees with sales of over $100,000,000 are, in our opinion, unreasonable. An allowed profit of 9 per cent on the total investment in Class I (meat business) allows the several packers to make from 13 to 17 per cent on the portion of their own money invested in that business and an allowed profit of 15 per cent on the total investment in Class II (specialty products) nets the packers from 24 to 34 per cent on the proportion of their own money invested in that class. The present rate of earnings in Class III (unregulated section) shows the several packers to be making from 16 to 41 per cent on their own money invested in that class. Taking the whole business all together, it appears that the present profits allowable to stockholders in the several companies nets them from 18 to 20 per cent on their entire equity in the business, namely, an average of about 19 per cent on the capital stock and surplus together.

Percentages of allowed profit on net worth.

[Estimated for year ending Nov. 1, 1918.]

	Armour.	Swift.	Morris.	Wilson.	Cudahy.
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Class I	15.6	12.6	15.1	16.5	14.9
Class II	29.7	23.8	29.3	33.9	29.7
Class III	[1] 15.7	29.2	32.2	27.2	41.4
Total business	[1] 18.3	18.2	19.0	19.3	20.5

[1] Foreign business not included.

The above table is a portion of Exhibit 1 (appended herewith), and while these figures and percentages, as explained in detail on Exhibit 1, can only be estimates in view of the fact that they are based on a year which is not yet completed, they are the best estimates that can be compiled, and the only guide which we have to follow at this time.

The earnings, as estimated, provide a rate of return on the capital stock of the several companies, as follows:

Percentage of allowed profit.

	Armour.	Swift.	Morris.	Wilson.	Cudahy.
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
On total capital stock	30.9	37.6	305.5	22.7	32.3
On common stock	30.9	37.6	305.5	31.0	51.6

The enormous rate in the case of Morris comes about because that company has not seen fit to capitalize its surplus to the same extent as the other companies. If it had followed the practice of the other companies, its rate of return on its stock would probably be in line, namely, in the neighborhood of 40 per cent.

The above estimates have been conservatively made, and while they can not be exact, it is probable that any differences that may develop will be on the side of greater allowances than those quoted. In our opinion, 20 per cent on the capital and surplus of an established company—particularly where such enormous surplus has been accumulated—is, in the case of the five great packers, an unreasonable return in war time or in any other time, in view of the fact that the product is a basis necessity of life and in the nature of a public utility.

Our contention that the present allowed profits of the packers are unreasonable is borne out by a survey of the earnings of other large industrial corporations in the United States. The following statistics were collected from Poor's Manual. We wish to point out that the figures were hastily gathered and that no attempt has been made to analyze the balance sheets and the profit-and-loss statements from which they were taken; indeed, no real analysis could be made, as the figures are not printed in sufficient detail. We limited the number of companies to such as were in some degree comparable from point of size with the five large packers. (For the names of the specific companies see sub-Exhibit II.)

Average profit on net worth.

	1917	1916	1915	1914	1913
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Food	11	9	7	6	5
Automobiles	9	15	14	6	.....
Rubber	15	10	13	9	6
Coal	13	8	7	7	9
Steel	22	29	8	3	9
Sugar	17	18	10	7	3
Hides	15	17	8	6	6
Electricity	.....	15	10	10	11

In normal times—1913, 1914, 1915—the above industries were earning less than 10 per cent on their net worth. In the war years of 1916 and 1917, steel is the only group which has earned better than 20 per cent on its net worth—the estimated allowed rate of the packers under the regulation.

Not only is the rate which the packers are now allowed excessive as compared with standard business practice, but it is excessive as compared with the packers' own earnings in prior years. With the exception of Swift & Co., the packers are to be allowed to earn as much or more under the regulation as they did in 1917, the most profitable year in all their history. The following table shows the rates of profit earned on the net worth of the whole business for the past six years:

Rates of profit.

	Armour.	Swift.	Morris.	Wilson.	Cudahy.
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
1912	5.7	8.4	6.6	.....	6.7
1913	5.9	8.3	6.6	.....	7.6
1914	7.0	8.2	7.1	.....	7.8
1915	9.4	17.2	7.1	.....	4.0
1916	16.6	17.1	13.3	19.3	16.5
1917	[1] 16.8	26.7	18.6	23.8	18.7
1918 (estimated)	[1] 18.3	18.2	18.9	19.3	20.5
Average, war, 1915, 1916, 1917	14.6	21.0	13.5	.....	14.1
Average, prewar, 1912, 1913, 1914	6.2	8.3	6.8	.....	7.3

[1] Foreign business not included.

It will be noted that Armour is to be allowed about three times their average prewar profit rate; Swift over twice; Morris nearly three times; Cudahy three times. With the exception of Swift all are to be allowed a greater rate of profit than they earned in the three profitable war years—1915, 1916, and 1917. To allow the stockholders of a given company three times the rate of earnings enjoyed on the average in times of peace is to allow a maximum which is not only unreasonable, but, from the standpoint of the general public who believe that the packers are really being regulated, an outrageous imposition upon their trust in the Government.

The reason why these profits do not seem unreasonable to the packers themselves is because the big packers have, from time immemorial, followed the policy of extending their plants out of earnings, rather than in securing new capital. This practice has become such a part of their business thinking that it has taken on all the sanction of a moral philosophy. To limit earnings below

the point where a surplus remains to extend construction to any point they desire, seems to them wrong and unreasonable.

They do not think in the terms of ordinary financial procedure at all. They have discovered a way of making the public pay for their enlarging investments, and they are sincerely shocked when it is proposed to limit them in that vested right. This unique philosophy was apparent all through the recent hearings conducted by Mr. Morse, but it is difficult to see why it should be the province of the Government to protect their highly moral, but highly unusual, sentiments in this regard.

We conclude this section as we began it, namely, that the maximum rates are unreasonable, in fact dangerously unreasonable, and that if it is found expedient to continue the present form of regulation, pending a more intensive study of its effects, the rates of profit allowed upon the investment in classes 1 and 2 should be lessened.

SECTION II. GENERAL SURVEY OF THE PRESENT REGULATIONS APART FROM MAXIMUM RATES.

The present regulations provide for 2½ per cent profit restriction on the meat-product sales of all American packers, and, in the case of the five large packers, a further restriction of 9 per cent on the total investment in the meat business (class 1), and 15 per cent on the total investment in certain specialty businesses, the bulk of whose raw material is derived from slaughtered animals (class 2). The remainder of the packer's business (class 3) is unregulated as to profit.

The appended Exhibit 3 shows in detail the various departments now adjudged to be in the several classes. As we understand it the theory of the present regulations was—

(1) To prevent profiteering.
(2) To stimulate production.
(3) To limit prices.

As a result of approximately six months' experience, it appears that—

(1) Profiteering, as we have already pointed out, has not been prevented.

(2) Production has increased—though whether it would have happened had the regulation not been in effect is problematical.

(3) The effect on prices is apparently nil.

If, following the recommendation in the foregoing section, maximum rates are now reduced to a point where profiteering is eliminated, only allowing reasonable profits by classes, certain grave difficulties would still appear in the present form of the regulations.

It has been the policy of the Food Administration to accept the figures that the packers have prepared with very little intensive audit. While the accounting staff of the meat division has done its best to study and compare the figures rendered, the staff has not been large enough to permit of any thoroughgoing examination of the various figures, and the bases upon which they were prepared. Sufficient analysis has been made, however, to demonstrate the fact that if the present scheme of regulation, by classes, is to be indefinitely continued, a great number of complex factors must be intensively studied in order that the Government and the public may be assured that the packers' reports are accurately compiled.

The foremost difficulty that presents itself is the division of the total business into classes. This division is not and can not be a natural one from the accounting point of view. It is an arbitrary apportionment as to (1) investment, (2) transfer prices, (3) distribution of overhead expenses, (4) disposition of branch-house results. The packers unite in maintaining that the distinction, by classes, can be made and made accurately, but a relentless examination of the facts shows such a variety of variations, any one of which may seriously vitiate final results, as to render a scheme of regulation based on classes very questionable. We will consider each of the variables enumerated above in turn:

DIFFICULTY OF APPORTIONING INVESTMENT.

The packers now estimate the investment in each department of their business and by aggregating the departmental investments by classes, the present apportionments for the Food Administration returns are arrived at. Investment includes both fixed and net floating assets. Fixed assets may be readily segregated where the lands, buildings, and equipment show a clean-cut separation by classes. Thus, if a given plant produces nothing but class 2 products, its investment as a part of class 2 can be accurately determined. When, however, a given plant located on a single tract of land produces goods that fall into two or three classes, the question of apportionment becomes one of estimate, and ceases to be one of strict accuracy. The majority of the standard local packing plants come under this head. In the same group of buildings, sometimes under the same roof, we find dressed meats (class 1), rendering (class 2), and dairy products (class 3) being simultaneously manufactured—or an endless series of other class variations. To apportion the exact share of fixed investment that each department should bear is obviously an impossible task. Estimates may be made, but only an exhaustive examination on the part of the Government—entailing the work of appraisers, accountants, and engineers—can certify to the approximate correctness of the estimates.

Again, so-called "nonoperating departments" such as power house, tin shop, box factory, storehouse, etc., departments which are supplying operating departments in all three classes, present a peculiarly difficult problem of apportionment. Only crude estimates based on service rendered or on supplies furnished or on final sales can be applied. The packers themselves do not now apportion this kind of investment uniformly. It follows logically that if one method is right, the other methods must be wrong to a greater or lesser degree.

The determination of fixed investment, however, is relatively simple when contrasted with the apportionment of floating assets. The books are not kept and it would not be practicable to keep them to show receivables by departments. And, accordingly, an exceedingly rough estimate must be made based on average credit terms. Thus, if a given department's sales in a given period are known and the average credit allowed on these goods is known, an estimate of outstanding accounts receivable can be calculated, other

things being equal. Other things seldom are equal, however, and the essential hit-or-miss character of this method needs no comment. How shall cash be apportioned by departments? How shall deferred charges—interest, insurance, taxes? How shall accounts payable? These questions defy accurate answer.

It is undoubtedly true that an exhaustive study of packers' methods of apportioning investment might reveal a standard method which might be applied by the Government, and total investments by classes be accumulated thereon, giving figures which would to all intents and purposes insure the Government of a rough equality upon which to base its rates of profit. It may be that such a method is even now in existence in the procedure of at least one company. Certainly it can not be in existence in all companies because of the variety of methods used, and certainly only a prolonged study by a large and competent staff could certify to the substantial accuracy of final results.

DIFFICULTY OF DETERMINING TRANSFER PRICES.

In order to obtain profits by classes, credits must be made for the shipment of finished and partially finished products from one class to another. The present practice of the packers in this connection is to value products so transferred at so-called "market prices." Estimates of what constitute market prices vary, however, as do the extent of deductions from market to cover further processing expenses. On other products, such as glue stock, blood, hair, etc., there is no ascertainable market price, and the transfer credit has to be an arbitrary figure. There is but little uniformity in the present methods of valuing transfers now in vogue among the Big Five, and it follows that profits or losses by classes are, to that extent, distorted and vitiated.

DIFFICULTY OF APPORTIONING OVERHEAD EXPENSES.

Each of the five large packers employs at present independent methods of apportioning general administrative and plant overhead expenses to his various departments. Exhibit 4, appended, shows the variety of methods employed. Here, as in the case of investment, we are confronted with the fact that if one method is right the others must be wrong, and that profits and losses by classes are necessarily inaccurate. Only an intensive study of the methods of apportioning overhead expenses can satisfy the Government that the division by classes is an accurate compilation.

Again, the following table shows for the five companies the percentage of administrative expense charged to class 1 against charges to classes 2 and 3 combined. From this percentage, as compared with sales or investment, it is clear that class 1 bears a very high proportion of the administrative burden. Each of the five companies shows a proportionately higher total of administrative expense than the proportion of total sales or of total investment obtaining in the meat business (class 1). The packers have often affirmed that in recent years their activities have been primarily directed to acquiring an interest in food specialties other than meat. Accordingly, it is probable that the percentage of total administrative expense which the meat business bears is considerably in excess of its true proportion, particularly in view of the fact that this business has been long established and is more automatic in its operation than newer activities, which require continual expert oversight. We have reason, therefore, to question gravely the accuracy of the present methods of distributing overhead expenses by classes.

TABLE C.—*November and December 1917.*

	Armour.	Swift.	Morris.	Wilson.	Cudahy.
Percentage of administrative expense:	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Class 1	82.57	77.31	86.33	90.33	89.93
Class 2, 3	17.43	22.69	13.67	9.67	10.07
Total	100.00	100.00	100.00	100.00	100.00
Percentage of sales:					
Class 1	76.00	56.80	82.50	77.60	75.70
Class 2, 3	24.00	43.20	17.50	22.40	24.30
Total	100.00	100.00	100.00	100.00	100.00
Percentage of investment:					
Class 1	65.50	60.50	74.80	77.70	75.60
Class 2, 3	34.50	39.50	25.20	22.30	24.40
Total	100.00	100.00	100.00	100.00	100.00

DIFFICULTY OF APPORTIONING BRANCH-HOUSE RESULTS.

A normal branch house sells the product of all three classes. Sales by classes may be readily segregated, but what shall we say of freight charges from the plant to the branch house, and of branch-house selling expenses? The same car may carry beef, butterine, and canned fish, and the same manager, clerks, coolers, general store expenses, cooperate to merchandise these products. An arbitrary apportionment based on money sales, or weights, or whatnot, can be made and is made. But how far can we accept it as accurate? Here again only a long study of the branch-house situation can insure the Government against inaccurate results.

Finally, it appears that it is perfectly possible under the class system of regulation for the packers to divert profits from one class to another without serious chance of detection as matters now stand. It is also possible for them to shift their investments by classes, thus affecting their allowed rates of profit without the Government's knowledge. To maintain that a handful of men can prevent either of these proceedings is, from the accounting point of view, ridiculous. To watch an annual business of some three billions of dollars, to check the computations of hundreds of plants, thousands of departments, and tens of thousands of bookkeepers, requires more than a handful of men.

The Food Administration has gone on the assumption that the packers were honest. The reports now being made to the Food Administration show an astonishing shrinkage of earnings in classes 1 and 2, where the regulation is in effect; and large profits in class 3, which is unregulated. No matter how honest the packers, this is a condition which merits immediate and exhaustive attention.

	Swift.	Morris.	Wilson.	Cudahy.
Percentage of investment:	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Class 1	60	76	78	77
Class 2	18	12	6	5
Class 3	22	12	16	18
Total	100	100	100	100
Percentage of profit earned:				
Class 1	58	41	69	62
Class 2	----------	19	4	6
Class 3	42	40	27	32
Total	100	100	100	100

ARMOUR FIGURES NOT COMPARABLE.

On the whole, it must be concluded that the regulation of anything less than the business as a whole is highly unsatisfactory. As matters now stand, the public can not be assured that it is being protected from unreasonable profiteering. The alternative to regulating the business as a whole is to throw a sufficient staff of accountants, engineers, and appraisers into the regulation work to finally solve the various problems of apportionment already referred to. Fifty men in six months' time could hardly conclude an initial report upon the problem.

In addition to the weakness of the class distinctions, a further weakness is found in the present regulation, due to the fact that the packers are allowed to make profits on borrowed money. This is contrary to the usual economic interpretation of profit taking and if any other feasible method of stimulating production can be found, it should be adopted, and thereby eliminate the present rather dangerous doctrine that the Government sanctions.

A third weakness in the present regulation is the fact that the valuations of fixed assets now appearing upon the packers' books are on different bases as between companies. This is not only very unsatisfactory from the point of view of the Government but works considerable injustice upon the packers themselves. The different bases used are shown in the testimony taken by Mr. Perley Morse, and we will not attempt to go into that matter deeply at this point. Suffice it to say that differences of millions of dollars due to reappraisals, or the lack of them, now operate to render the policy of profit based on investment very unreliable. The regulations as they stand do not lay down any policy as to the proper basis of valuing fixed assets. The packers are all clamoring to be permitted to reappraise their properties on 1918 valuations. Obviously if this is allowed it will result in giving them millions of additional profit. There is nothing in the regulations should provide specifically that the only proper basis of valuation for the fixed assets of a going concern, is cost-less-depreciation—depreciation being sufficient to allow for increased costs of construction.

A fourth weakness in the regulations is that investment as now defined is not fixed, but grows as profits grow—in view of the fact that net worth is a part of investment, and profits are a part of net worth. Accordingly, we are allowing the packers to make a profit on profit.

A comparison of the present regulations with those of the Canadian Government reveals other shortcomings which, though minor, are worthy of attention. Among the more important of them are the following:

(1) The Canadian Government regulates packers whether they slaughter or manufacture meat products.

The Food Administration only regulates slaughterers. This enables a packer to buy live animals, have them slaughtered on commission, work up the green meats, and be completely exempt from regulation. The injustice to the packers who slaughter is obvious.

(2) The Canadian Government does not bother with small packers doing a business of less than $750,000 a year.

The Food Administration regulates all licenses; i. e., whoever is doing a business of over $100,000. From the accounting point of view regulation of these little packers between $100,000 and half a million is an interminably harrassing piece of work and it is doubtful if the results obtained are worth the great effort of requiring and certifying to profits.

(3) Besides limiting packers to 2 per cent gross value of their sales, the Canadian Government further provides that no packer shall make over 15 per cent on his net worth and that all profits between 7 per cent and 15 per cent shall be divided equally between the packer and the Government.

Our figures show that certain of the small packers under the Food Administration regulation are allowed prodigious profits on their net worth, even though they are still under the 2½ per cent provision on their sales. In the last analysis the stockholders' return is the only true measure of profiteering, and, accordingly, a secondary test regulation on net worth might well be considered for the small packers in the United States.

(4) The Food Administration allows the packers who feel themselves aggrieved with the 2½ per cent provision to apply for a special ruling. This ruling is granted if the packer can show that his prewar earnings were in excess of 2½ per cent.

Canada has no special rulings whatsoever, and what she loses in particular disgruntlement she probably more than gains by a sense of universal equality of treatment.

(5) The Canadian Government sets uniform rates of depreciation for all packers.

This is a course that the Food Administration might adopt after a sufficient study of present rates had been made to warrant an equitable uniform procedure.

(6) The Canadian regulations provide that profits in excess of the allowed rate should be turned over in cash to the receiver general.

The Food Administration would be somewhat embarrassed if it found itself with excess profits to deal with. No provision is now made for their disposition. In our opinion such provision should be made. It is absurd to hope that a given packer can so govern his business as to come out at the end of the year exactly within his allowed profit, and it would not be fair to require him to do so.

(7) The Canadian regulations govern not only the products of live stock, but if any packer has a department dealing with "human food" such a department is also regulated as a part of the packing business.

139888—S. Doc. 110, 66-1——3

This provision, particularly in war time, is worthy of serious consideration.

(8) The Canadian regulations provide a penalty of $5,000 fine or six months in jail, or both, to any packer who willfully disregards any of the provisions of the regulations. This does not apply, of course, to excess profits, but rather to methods of accounting and reporting.

It is possible that a penalty provision would strengthen the Food Administration regulations.

INVENTORY PRICES.

Before concluding this section a word should be said regarding the very unsatisfactory status of inventory valuations under the present regulations. The regulations originally called for "true, fair, and full market price." This was subsequently changed by order of Mr. Cotton to "cost" where no market figures were available. The packers inventoried those products that had a market value, close to the full value on November 1, when the regulation began, but subsequently they have been following their old conservative practice of valuing under the market, thereby successfully wrecking any intelligent figures on actual profits to date. An order has recently been promulgated by the Food Administration requiring that all pork products be priced at 1 cent under the cash market, but this is in the nature of locking the stable after the horse has gone. No reliable figures of profit can be obtained until the question of inventory prices is thoroughly examined and a uniform procedure established.

We conclude section 2 by maintaining that the present regulations—even if rates were reduced to a more reasonable level—contain a number of provisions that are badly in need of amendment. While such amendments might conceivably be postponed until the regulations had run a full year in order that adequate study might be made of them, it is certain that the regulations as they now stand are in temporary rather than in sound permanent form.

Furthermore, as we have already observed, if the class divisions are to permanently continue, only a large staff can attempt to protect the Government in administering them; and we say "attempt" advisedly. It is our convinced opinion that the only practicable method of regulation from both the public and the accounting point of view is that of the business as a whole.

SECTION III. A PROPOSED METHOD OF REGULATION.

It is evident that a profit regulation, while it can be so framed as to have the further effect of stimulating production, can not exert much influence on nor hope to control prices. Beyond being sure that a given regulation would not have a tendency to inflate prices, its aims should be primarily to prevent profiteering, while maintaining production. The undersigned have prepared a system of regulation which we believe will accomplish these ends.

Plan.—For the purpose of applying these regulations to all packers now subject to regulation by the Food Administration there shall be created two divisions licensed by the Food Administration. Division 1 shall be composed of all packers whose sales value in

1917 exceeded $100,000,000. Division 2 shall be composed of all packers whose sales amounted to less than $100,000,000.

Any licensee in division 1 shall be allowed to retain from the net profits resulting from the business done in 1918 a sum equal to 10 per cent of the net worth as shown by the balance sheet of such licensee at the end of the fiscal year 1917, provided the weight volume of all animals slaughtered by such licensee during the fiscal year 1918 shall equal or exceed the weight volume of all animals slaughtered during the fiscal year 1917. For each increase of 10 per cent in weight volume of animals slaughtered in 1918 over 1917 licensee shall be permitted to retain from net profits realized an additional amount equal to 1 per cent of net worth, but in no event shall the total profits retained by any licensee amount to more than 15 per cent of the net worth. For each decrease of 10 per cent in weight volume slaughtered by any licensee in 1918 there shall be deducted from the profits allowed a sum equal to 1 per cent of the net worth, but in no event shall the total deductions so made reduce the profits allowed to less than 7 per cent of the net worth.

All excess profits realized by any licensee over the amount to be determined on the basis outlined above shall be credited to the United States Government on the books of such licensee, and may be used by the chairman of the meat-purchasing board in settlement of purchases of meat or other food products for the Army and Navy of the United States Government from such licensee; but the chairman of the meat-purchasing board may set aside, for the purpose of establishing an inventory reserve, such part of the profits thus received by the United States Government as may in his judgment seem necessary to protect any licensee from loss by virtue of reduction in final prices realized for products below the prices at which such products were carried in inventory at time profits were determined, but any part of inventory reserve not used in defraying actual losses resulting from sales of such product shall be retained by the United States Government.

All licensees shall continue to render reports as provided by the regulations now in force, but no determination of profits shall be made for purpose of the regulation herein provided for until the end of the fiscal year.

The above regulation is subject to immediate criticism on certain lines, as follows:

A. When the packers' entire business is regulated, including the outside specialties, it places him at a disadvantage with competitors who manufacture these specialties only and who would be unregulated.

Answer. (I) If the regulation excludes these products, it is unfair to the Government and the people because of accounting difficulties; if it includes them, there is a possibility of its being unfair to the packers. As between two evils, who shall be protected—the people or the packers?

(II) The packers' specialty business is not on a parity with his competitor in the same line of business because of (1) his steady supply of raw material; (2) his advantages of distribution due to a world-wide organization of selling facilities; (3) financial strength and borrowing power; (4) finally, if the regulation applied to the

Big Five, most of their specialty departments together can exert such a preponderating influence on the market that competitors would be forced to meet prices, and thus, in effect, competitors would themselves be regulated.

B. If the packers' entire business is regulated he will so undersell his competitors in specialty business that before the period of regulation is over the big packers will control absolutely the whole specialty business of the country.

Answer. If it appears that the big packers can operate these specialty businesses more effectively than the independents it is sound war-time efficiency to let them do it. The only danger in the situation would be the failure of the Government to continue its regulation of the packers and their affiliated companies after the war.

C. Owing to the different methods of valuing fixed assets now obtaining on the books of the Big Five it is impossible to equitably value net worth.

Answer. This is a serious objection and can only be answered after considerable study as to the possibilities of putting the packers on a rough equality of investment as of November 1, 1917. Basis of such valuation should be cost less depreciation sufficient to cover the increased costs of constructions in recent years. It must be remembered, however, that the present regulation is subject to the same objection.

The advantages of the above regulation:

A. Profiteering is prevented absolutely and the certification of that fact becomes a relatively simple accounting procedure.

B. An incentive to increased production is provided.

C. The packers are allowed to think in terms of a year rather than in terms of a two months' period in imposing the regulation upon themselves. The limitation based on the two months' period is obviously absurd, owing to the difficulties of getting accurate profits in the packing business in any period less than a year. The provision crediting excess profits against future purchases for the Army and the Allies allows the packers more freedom in the conduct of their business during the year while insuring the business against any exorbitant profits at the end of the year.

D. Provision for inventory reserve insuring the packers against a rapid decline in market valuations takes away their stongest argument against profit limitation.

Finally, it appears to us that if the packers are allowed liberal provision for repairs and for depreciation, if they are allowed to charge all interest on borrowed money against income, and if on top of this they are allowed a reasonably liberal profit on their net worth with the further provision that increased production will be compensated with an added percentage of allowed profit, it is difficult to see what more in simple justice they could except.

The packers must be made to realize that their industry is so absolutely essential to the prosecution of the war that not only must the supplies which are needed for our Army and Navy be furnished in the quantities needed without hesitation or quibble as to profits on their part, but that the civilian population of the United States also must be provided to the fullest possible extent with the food supplies needed to sustain them and to furnish the energy with which to meet the additional tax on their strength which the speeding up of production has placed upon them. The people must be assured that the packers are doing their part too and that there shall be no profiteering. The full confidence of the people is needed to win this war and the Government must see to it that there is no betrayal of that confidence. If we give the packers more profit than is provided for in this proposed regulation we compromise the Government and betray the people.

Respectfully submitted.

STUART CHASE.

EXHIBITS TO REPORT OF STUART CHASE.

EXHIBIT I.

Percentage of profit and net worth.

[Dollars in thousands.]

	Armour.	Swift.	Morris.	Wilson.	Cudahy.
Total investment:					
Class I	$229,122	$232,337	$86,018	$80,911	$59,777
Class II [1]	76,782	69,361	13,246	6,365	4,300
Class III	[2] 91,785	83,500	14,430	16,220	14,053
Total	397,689	385,198	113,694	103,496	78,129
Net worth, Mar. 2, 1918: [3]					
Class I	97,326	124,417	36,601	28,022	24,171
Class II	32,622	37,148	5,636	2,204	1,738
Class III	[2] 38,991	44,697	6,138	5,617	5,683
Total	168,939	206,262	48,375	35,843	31,592
Allowed profit, second report:					
Class I (9 per cent)	20,621	20,910	7,742	7,282	5,380
Class II (15 per cent)	11,517	10,404	1,987	955	645
Class III (present rate) [4]	[2] 8,332	14,930	2,343	2,077	[4] 2,774
Total (estimated)	40,470	46,244	12,072	10,314	8,799
Percentage allowed, profit to net worth:					
Class I	21.19	16.81	21.15	25.99	22.26
Class II	35.30	28.02	35.26	43.33	37.11
Class III	[2] 21.37	33.35	38.17	36.98	48.81
Total	23.96	22.42	24.95	28.77	27.85
Estimated interest:					
Class I	$5,488	$5,216	$2,199	$2,647	$1,787
Class II	1,839	1,557	338	208	128
Class III	2,199	1,877	369	531	421
Total	9,526	8,650	2,906	3,386	2,336
Net allowed profit:					
Class I	15,133	15,694	5,543	4,635	3,593
Class II	9,678	8,847	1,649	747	517
Class III	[2] 6,133	13,053	1,974	1,546	2,353
Total	30,944	37,594	9,166	6,928	6,463
Per cent net allowed profit to net worth:					
Class I	15.55	12.61	15.14	16.54	14.86
Class II [1]	29.67	23.82	29.26	33.89	29.74
Class III	[2] 15.73	29.16	32.16	27.20	41.40
Total	[2] 18.32	18.22	18.95	19.33	20.46

[1] Includes leather and fertilizer, basis of Nov. 1, 1917, figures.
[2] Foreign business not included.
[3] Net worth, as divided arbitrarily by classes, on same basis as "Total investment."
[4] Six months.

EXHIBIT II.

Group 1—Food.

American Biscuit Co. (National Biscuit Co.).
American Cereal Co. (Quaker Oats Co.
Loose-Wiles Biscuit Co.
Booth Fisheries Co.
American Cotton Oil Co.
Corn Products Co.

Group 2—Automobile.

Allis-Chalmers Manufacturing Co.
Chandler Motor Car Co.
Studebaker Corporation.
Willys-Overland Co.
Maxwell Motor Co.

Group 3—Rubber.

Goodyear Tire & Rubber Co.
United States Rubber Co.
Kelly Springfield Tire Co.
B. F. Goodrich Co.
Canadian Consolidated Rubber Co.

Group 4—Coal.

Pittsburg Coal Co.
Virginia Iron, Coal & Coke Co.

Group 4—Coal—Continued.

Lehigh & Wilkes-Barre Coal Co.
Consolidated Coal Co.

Group 5—Steel.

United States Steel Co.
Midvale Steel Co.
Lackawanna Steel Co.
American Steel Foundries.
American Locomotive Co.

Group 6—Sugar.

American Beet Sugar Co.
Cube Cane Sugar Co.
American Sugar Refining Co.
Cuba American Sugar Co.

Group 7—Hides.

American Hide & Leather Co.
Central Leather Co.

Group 8—Electric.

General Electric Co.
Westinghouse Electric Co.

EXHIBIT III.

PROPOSED UNIFORM CLASSIFICATION.

A. Packing-house manufacturing.
  Beef section, class 1:
    Dressed beef.
    Hides.
    Oleo.
    Beef cuts.
    Beef casings.
    Smoked beef.
    Pickled beef.
    Mixed beef products.
  Pork section, class 1:
    Fresh pork cuts.
    Dressed hogs.
    Smoked pork.
    Hams.
    Barrel pork.
    Dry salt pork.
    Lard.
    Pork casings.
    Mixed pork products.
  Sheep section, class 1:
    Dressed sheep.
    Pelts.
    Sheep casings.
    Sheep offal.
  Calf section, class 1:
    Dressed calves.
    Calf skins.
    Calf offal.
  Mixed section, class 1:
    Canned meats.

A. Packing-house manufacturing—Con
  Mixed section, class 1—Con.
    Sausage.
    Butterine.
    Tallow and grease (tanks).
    Beef extract.
B. Live-stock product specialties:
  Leather, tanneries, class 2.
  Fertilizer, commercial, class 2.
  Soap, washing powders, classes 2, 3.
  Glue, class 2.
  Rendering, city fat and hides, class 2.
  Hair, bedding, brushes, class 2.
  Stock food, class 2.
  Ammonia, class 3.
  Serum, class 3.
  Pepsin, class 2.
  Mince meat, class 2.
  Gut strings, class 2.
  Pork and beans, class 3.
  Pharmaceutical, class 2.
  Glycerin, class 2.
  Sandpaper, class 3.
  Animal oil, class 2.
C. Nonlive stock food products:
  Lard substitutes—Cotton oils, class 3.
    Poultry, class 3.
    Eggs, class 3.
    Butter, buttermilk, class 3.

C. Nonlive stock food products—Con.
  Lard substitutes—Cotton oils, class 3—Continued.
    Creamery, class 3.
    Cheese, class 3.
    Fish, class 3.
    Vegetables, class 3.
    Fruit, class 3.
    Grape juice, class 3.
    Soda fountain supplies, class 3.
    Condiments and preserves, class 3.
    Peanut butter, class 3.
    Groceries, class 3.
D. Special services:
  Car lines, class 1.
  Cold-storage warehouses, class 1.
  Ice manufacturing, class 1.
  Stockyards, class 3.
  Water companies, class 3.
  Real estate, class 3.
  Phosphate mines, class 3.
  Board of trade options, class 3.
  Sporting goods, class 3.

D. Special services—Continued.
  Kelp, class 3.
E. Supply departments:
  Bags, class 2.
  Boxes, class 2.
  Cooperage, class 2.
  Printing, class 2.
  Laundry, all classes.
  Car repair shops.
  Car manufacturing.
  Tin, class 2.
  Laboratory, all classes.
F. Selling agencies:
  Branch houses, all classes.
  Commission houses, all classes.
  Car-route department, all classes.
G. Investments: Class 3 (not departmentalized)—
  Coal mines.
  Salt mines.
  Publishers.
  Farm papers.
  Banks.
  Cattle-loan companies.

EXHIBIT IV.

Basis of distribution, indirect expenses.

	Armour.	Swift.	Morris.	Wilson.	Cudahy.
General administrative distributed to plants on basis of.	Sales.....	⅛ of 1 per cent of sales, actual distribution.	Sales.....	Sales, pay roll and investment.	Sales.
Distributed to departments on basis of.	Sales, produce department, scaled down 50 per cent.	Sales, produce department, scaled down 50 per cent.	Sales, produce department, doubled.	Salary pay roll and investment.	Sales.
Plant overhead, factory, general.	Sales.....	Labor pay roll..	Factory pay roll.	Plant pay roll..	Pay roll.
Taxes.....	Buildings and machinery.	Buildings and machinery.	Sales[2].....	Buildings, machinery, and stock.	Buildings, machinery, and stock.
Interest.....	6 per cent on average investment.	8½ per cent on investment.	6 per cent on department investment and expense department investment.	6 per cent on investment except in certain plants.	Actual interest on basis of investment.
Selling expense....	Sales.....	1/100 of 1 per cent of sales, actual distribution.	Direct charge...	Included in administrative.	Sales.
Power departments.	(1)	(1)	(1)	(1)	(1)

[1] In each of the five companies the engineer's department prepares the distribution, but the basis is different in each case.

EXHIBITS SUBMITTED WITH REPORT OF PERLEY MORSE & CO., CERTIFIED PUBLIC ACCOUNTANTS.

JUNE 14, 1918.

Mr. P. S. WHIPPLE, PERLEY MORSE & CO.,
Certified public accountants.

DEAR SIR: I understood the other day that Mr. Morse was to leave town Thursday night and I tried to reach you this morning to make engagement to go over with you some points in the tran-

script of testimony taken at our office the other day which I think should be corrected.

Call your attention to the following:

Page —, next to last sentence should read, "Our regulations here make it mandatory that the *profits* of packing business."

Page —, near top, should read, "They have taken this thing (the United States Food Administration meat division regulations) and adopted it to a very great extent."

Just below, "I think that one feature is better and it has always been quite prominent to us, namely, that of not requiring us, etc."

Page —, second line, MacAuley should be Moxley.

Page —, strike out two words, "liberty to" and substitute "liberally."

Page —, strike first word and substitute "depreciated."

Page —, strike last sentence and substitute "In money but not in tonnage."

Page 146, strike next to last word "factory" and substitute "industry."

Page 147, add after Denver, fourth line, "Kansas City, South Omaha, St. Joseph, East St. Louis, and other cities."

Page 152, tenth line, strike comment by Mr. Chaplin and substitute "Direct expenses are charged directly to departments affected. In the case of our branch houses, we have the actual results."

Page 154, fourth line from bottom, strike word "private." Substitute "profit."

Page 156, ninth line should read "one hundred and fifty millions" instead of "fifty millions."

Page 169, last line, strike word "to."

Page 170, first syllable should be "ruption" instead of "vention."

Page 179, fifth line, strike words "not quantities. It would." Substitute "A certain rate might."

Page 181, fourth line from bottom, strike word "house." Substitute "product." Strike words "with the department in it"; third from last line, "value of" should read "values in."

Page 182, sixth line from top, strike "we have fixed." Substitute "it figures." Word "superintendents" should be "superintendence."

Page 186, ninth line from top, strike Mr. Chaplin's comments and substitute "Live stock is not like some chemicals that you can split up and have exact quantities of the resulting elements. In a steer every bunch differs in yields from other bunches. You have got to take averages."

Yours, respectfully,

WM. B. TRAYNOR.

MEAT PACKERS' PROFITS INVESTIGATION—BEFORE THE FEDERAL TRADE COMMISSION.

CHICAGO, ILL., *June 11, 1918, 2 o'clock p. m.*

(SWIFT & CO.)

Meat packers' profits investigation by the Federal Trade Commission to ascertain if the United States Food Administration meat division rules and regulations, in force since November 1, 1917,

are reasonable or unreasonable, pursuant to President's meat commission report of May 27, 1918, in which the Federal Trade Commission are authorized or instructed to make an examination into these regulations.

Present on behalf of the Federal Trade Commission: Stuart Chase, Esq.; Samuel W. Tator, Esq.; Perley Morse & Co., certified public accountants, New York, represented by Perley Morse, Esq., and P. S. Whipple, Esq.

Present on behalf of Swift & Co.: Edward F. Swift, Esq.; G. F. Swift, jr., Esq.; H. Swift, Esq.; W. D. Traynor, Esq.; J. S. Chaplin, Esq.; L. D. H. Weller, Esq.; H. J. Nelson, Esq.

PROCEEDINGS.

Mr. EDWARD F. SWIFT. I would like to make a statement that the packing business is a seasonable business and a six months' period is hardly sufficient to arrive at a conclusion; that it should have at least a year or a series of years is even more desirable; that in the packing business there are certain parts of the product that are accumulated during certain months and disposed of during the following months, and, as previously stated, it would take, at least to make a fair comparison, with a fair degree of accuracy upon the business, a year, and several years would be still better.

I would like to make a general statement, that all commodities, including the use of money, is demanding higher returns; that live stock is costing at least 100 per cent more than previous to the war. Labor is 100 per cent higher. The commodities used in the packing business, including construction of buildings, supplies of various kinds necessary to use in the preparing of meats, machinery, and equipment, are from 50 to 75 per cent higher than previous to the war. On account of the high prices, approximately nearly 100 per cent in doing business, there is a larger element of risk. On June 1, under the 9 per cent section of the meat business, Swift & Co. had 401,000,000 pounds of product on hand. A reduction in price of that product of, say, 5 cents a pound, would amount to $20,000,000, which condition we expect to face some time. Five cents a pound does not exceed 20 per cent reduction in the present prices.

Replacements in the packing business must always mean an expenditure of a large amount of money on account of striving for improved methods and improved machinery—improved everything—and the cost of operation consequently increases for the same reason. We are striving to do things better and to deliver our goods in better condition. In considering the 9 per cent profit basis I would like to call attention to the fact that that is the maximum profit, and the packer has to take all the risk. There is no guaranty of any kind.

That is all the general statement I have to make.

Mr. MORSE. Is there any other general statement that any of you gentlemen desire to make?

Mr. G. F. SWIFT, Jr. I do not think so at the moment, Mr. Morse. Perhaps we may be allowed to add something a little more general, later, when we get down to it a little closer.

Mr. MORSE. You will all have ample opportunity to say anything you want. In fact, we are here to get information from you, and anything that you want to say we will be glad to have it.

Mr. EDWARD F. SWIFT. We will be very pleased to give it to you.

Mr. MORSE. So you will all have an opportunity to say anything you want to say on that proposition.

I want to ask you a few general questions, Mr. Swift, and if you can answer them, all right. If the others can answer them, all right, but just so the stenographer will know who is answering the questions.

I have in my hand here the United States Food Administration committee division rules and regulations which have been in effect since November 1, 1917. In these rules and regulations, article 2, on pages 2 and 3, provides for the division of the meat packers' business into three classes. They call it class 1, class 2, and class 3. In class 1 you are allowed on your investment 9 per cent, and the last two 15 per cent, and in the other class you are unrestricted. Now, have you anything to say as to the divisions of classes into which this is divided? Have you any criticism to offer or any suggestions to make for a change?

Mr. EDWARD F. SWIFT. May I ask Mr. Traynor to answer that question? I think he perhaps can give a better answer than I can. Mr. Traynor will answer this question.

Mr. MORSE. Certainly.

Mr. TRAYNOR. We think, as I understand it, that the classifications are all right; that is, the divisions betwen the different classes. As I understand it, your question is as to the three different classes?

Mr. MORSE. Yes, sir.

Mr. TRAYNOR. Whether those classifications, as classifications, are satisfactory? Does your question go to the one of whether we believe certain departments that are now in class 1 should be in

Mr. MORSE. Yes. Either take some of the articles out of class 1 and put them into class 2, or some out of classes 1 and 2 and put them into class 3, or which ever way you think would serve the purposes of the regulations and yourselves and the public best. I want that expression of opinion.

Mr. TRAYNOR. We think there ought to be some changes as between the classes.

Mr. MORSE. It has been suggested that we state for the record, that this is not a legal proceeding. This is more or less in confidence and you need not be afraid.

Mr. EDWARD F. SWIFT. Oh, we are not afraid. We want to answer correctly and to the point.

Mr. WHIPPLE. But what we want is to gather information rather than anything else.

Mr. EDWARD F. SWIFT. May we consult on that to see whether we would like to add something a little more definite on the department.

Mr. MORSE. Yes.

Mr. G. F. SWIFT, Jr. There are some additions we would like to recommend, and we would submit you a memorandum of our suggestions on that point later, without going into all the details now.

Mr. MORSE. I suggest that you go into it formally and generally, so that we can form some idea as to how you feel about this classification. The reason I make the suggestion is that our time is limited now. I might say that you are not bound by anything in this proceeding.

Mr. WHIPPLE. It is to be supplemented by a detailed statement.

Mr. G. F. SWIFT, Jr. We think that soap, butterine, glue, wool, commercial fertilizer, city hides and fat; lubricating oils—grease and lubricating oils should be in the unrestricted department because they are a distinct and separate business and compete, to a large extent, with people that are not in the packing business and whose business in those lines is not restricted or controlled.

Mr. MORSE. Is there any classification in class 3 that you would suggest should be removed into class 1?

Mr. G. F. SWIFT, Jr. No, sir.

Mr. MORSE. How about stockyards? Don't you think that should be put into another class?

Mr. TRAYNOR. Which means that they are not under the regulation?

Mr. MORSE. Yes.

Mr. TRAYNOR. Your question goes to private regulation or to control?

Mr. MORSE. Private regulation.

Mr. G. F. SWIFT, Jr. Well, I would say no. If they are to be regulated it should be on some basis entirely foreign from the packing business. The stockyards are not all owned by the packers and therefore they are an industry by themselves. They should be regulated, if they are to be regulated at all, as industries on an entirely separate and independent and separate basis, whatever it is determined that should be.

Mr. MORSE. However, the packers do own stockyards, either many or few, or some of them, do they not?

Mr. G. F. SWIFT, Jr. Oh, yes, but not all of the stockyards of the country.

Mr. MORSE. Well, that is an essential part of the meat industry, is it not?

Mr. G. F. SWIFT, Jr. No. It has no connection. It is an entirely separate industry.

Mr. MORSE. Well, you have suggested the removal of some items from class 1 into class 3. Are there any removals in any of the other classes from one class to another that you would like to suggest?

Mr. TRAYNOR. From class 1 to class 3 those were.

Mr. MORSE. Yes.

Mr. TRAYNOR. Also there were two from class 1 to class 3.

Mr. MORSE. Yes.

Mr. G. F. SWIFT, Jr. I think that covers it.

Mr. MORSE. As I take it, you are willing to have it regulated, but you want it on a different basis?

Mr. G. F. SWIFT, Jr. On its merits. If everybody that owns stockyards are going to be regulated, naturally we are willing to be regulated.

Mr. MORSE. I think you are putting a big job up to some one.

Mr. G. F. SWIFT, Jr. Well, it is a separate industry, that is all.

Mr. MORSE. Are you satisfied that these regulations—the present regulations—are the best that could be provided by the Government to regulate the packing industry?

Mr. G. F. SWIFT, Jr. As to the methods, you mean?

Mr. MORSE. Yes; or as to these specific regulations that we are working under.

Mr. CHAPLIN. With reference to profits?
Mr. MORSE. Yes.
Mr. CHAPLIN. I think the general plan is a good one.
Mr. MORSE. You like the general plan?
Mr. CHAPLIN. The general plan is satisfactory.
Mr. MORSE. Do you know the Canadian plan of regulation? Are you familiar with that?
Mr. EDWARD F. SWIFT. Mr. Traynor is familiar with that and I would like him to answer that. I do not know whether it is applied over there yet or not.
Mr. MORSE. I will frame a question for Mr. Traynor, if you want me to. Mr. Traynor, you are familiar with the Canadian regulations?
Mr. TRAYNOR. Yes.
Mr. MORSE. How would you compare them with the United States regulations as to their regulatory effect and the workability, as far as the packers are concerned?
Mr. TRAYNOR. Well, as far as we know, the Canadian regulations have not been formally put into effect. Our advice about them came to us from our people in Canada. There seems to be a delay about completing them. We know in a general way what form they have taken up to date. For instance, the principal difference is that they provide that profits over a certain amount may be made and if they are made they go to the Government as a tax. Our regulations here make it mandatory that the packing business shall not run over a certain amount, so that we have to try to regulate our buying and selling—which we are aiming to—so that we will not make any more than the regulations allowed. It is rather a difficult thing to do.
Mr. MORSE. Well, that is one of the differences, but another difference that occurs to me is the proposition of the Canadian regulations basing the profit on sales; 2 per cent, I think it is, on sales, while here in the United States the basis used is the investment.
Mr. G. F. SWIFT, Jr. For the five larger packers.
Mr. MORSE. Which method would you prefer?
Mr. TRAYNOR. Well, I think I would say that we would prefer the basis upon the turnover, which would be, if equitable, a little easier to figure.
Mr. MORSE. On the turnover—you mean on the sales?
Mr. TRAYNOR. Yes. You see, there is part of the industry that is regulated in that way. The packers outside of the five larger packers—2½ per cent.
Mr. MORSE. Would you be willing to subject yourselves—that is, as far as we can do it—to the same rules and regulations that are provided in the rest of the Canadian regulations?
Mr. TRAYNOR. No; I do not think I would want to answer on that without giving them a little more study in detail than my present knowledge of them gives me. I have not reviewed that question for a month or more. The question of the Canadian profits is not entirely clear in my mind. It is patterned after ours, you know. They have taken this thing and adopted it to a very great extent. It came out after this. I think that one condition, that has always been quite prominent to us, of not requiring us to do our business

so that we must come within a certain profit, which seems a little more reasonable way to handle it, in a business the size of this. Then there is also a provision, I believe, in the Canadian regulations which provides that although there shall be a certain rate upon the sales they shall also not exceed a certain rate upon the investment. There is dual control there.
Mr. EDWARD F. SWIFT. Mr. Traynor would like to make a general statement on this question.
Mr. MORSE. We would be very pleased to hear it.
Mr. TRAYNOR. Swift & Co. would be willing to agree to a basis of 2½ per cent of profit on the sales or turnover on the meat-food department; what we call the meat-food departments are the departments in class 1.
Mr. EDWARD F. SWIFT. Which we understand is the Canadian plan.
Mr. MORSE. Well, there is a 7 per cent clause there on the investment; half of that is to be retained by the packers, I believe, and half of that is to go to the Government.
Mr. TRAYNOR. Anything over 7 per cent.
Mr. WHIPPLE. One-half of anything over 7 per cent.
Mr. TRAYNOR. That particular clause of the Canadian arrangement is ambiguous and our people are free to say that they do not know just what it means.
Mr. CHASE. I can give you that, I think. If any licensee makes profits exceeding an amount equal to 7 per cent upon the capital actually invested in his business, the licensee shall be entitled to retain in addition to such 7 per cent, one-half of such excess up to an amount equal to 15 per cent upon such capital, provided, however, that the licensee shall not be entitled to retain any profit exceeding an amount equal to 2 per cent of the gross value of his sales during any one year. All profits in excess of those that the licensee may retain, shall belong to His Majesty, and shall be paid by the licensee to the receiver general of Canada. Supplementing that is a definition of the word "capital," which is perhaps a little ambiguous as I read it. "Capital actually invested," defined as follows:

> The capital actually invested in the business of the licensee shall be the amount paid up in cash on his capital stock. Where stock has been issued for any consideration other than cash, the fair value of the stock at the date of its issue shall be deemed to be the amount paid up on such stock. In estimating the value of the assets, real, personal, movable and inmovable, and to the liabilities of the company at the date as of which such value is to be determined, in no case shall the value of the stock be fixed at an amount exceeding the par value of such stock. The actual unimpaired reserve, rest or accumulated profits of the capital company shall be included as part of its capital.

"Rest" is the English term for surplus, isn't it?
Mr. EDWARD F. SWIFT. I think so.
Mr. CHASE. So it practically means it is the capital stock plus its surplus, providing that capital stock had been paid for in cash or its equivalent.
Mr. TRAYNOR. Then what is the meaning of that "plus 2½," and what follows that? In bringing out this excess over 7 per cent? What does that mean?

Mr. CHASE. Well, if you earn over 7 per cent on this capital as defined, over 7 per cent and under 15, you can keep one-half of that and pay the other half over to the receiver general.

Mr. TRAYNOR. Keep one-half of the 8?

Mr. CHASE. One-half of the 15. Suppose you earn 10 per cent on your net worth. Now, the net excess of 10 per cent over 7 per cent we will say is a hundred thousand dollars.

Mr. TRAYNOR. In percentages it would be 3.

Mr. CHASE. Yes; 3 per cent. We will it $100,000. You could keep $50,000, and you would have to pay over to the receiver general fifty thousand.

Mr. TRAYNOR. Making a total of 7½ or 8½ per cent?

Mr. CHASE. Yes; 8½.

Mr. EDWARD F. SWIFT. Or if they earn 15, they would take one-half of 7 and 3½?

Mr. CHASE. No. All of the 7 and one-half of the 8, which would be 11 per cent.

Mr. G. F. SWIFT, jr. Under that plan it would be possible to earn 11 per cent?

Mr. CHASE. Yes. That is your maximum. That is your maximum.

Mr. TRAYNOR. Suppose you earn 20 per cent?

Mr. CHASE. You would still get your 11 per cent.

Mr. TRAYNOR. You would get the first 7 and one-half of the next 8?

Mr. CHASE. Yes.

Mr. TRAYNOR. What about the rest?

Mr. CHASE. None.

Mr. TRAYNOR. That is the way you understand it?

Mr. CHASE. Yes; and you would not get that if it was more than 2 per cent on your sales. Always this percentage on capital has to be less than 2 per cent of the sales.

Mr. TRAYNOR. You know the Canadian packers are very much dissatisfied with this regulation, and as far as you know it has not been put into effect. We would not want it here.

Mr. MORSE. Why has it not been accepted up there?

Mr. TRAYNOR. I do not know, except the dissatisfaction voiced not only by the Canadian packers, but by the large business associations generally in Canada—the Association of Bankers and the Association of Business Men and people concerned with keeping the business on a sound basis, who say that a restriction of this kind is suicide. It is going to paralyze the big industries which Britain is depending upon to help them out.

Mr. MORSE. Have you any idea that they will ever put this into force?

Mr. TRAYNOR. No; I have not. I hope they won't.

Mr. MORSE. At the present time, the industry there is unrestricted? Is that true?

Mr. TRAYNOR. Well, I would not say that. I have not heard from our people for a month or so on that. We have an understanding that they will inform us when anything new develops. Theoretically, I believe the packers are under some kind of a control; probably this control, but actually I do not know its operation.

Mr. MORSE. You would not favor a regulation of that kind in this country?

Mr. TRAYNOR. I would not; decidedly no.

Mr. CHASE. I have received from the receiver general of Canada what looks like a very formal authoritative act. It does not look like a bill proposed. It looks like a regulation, finished, both in French and English. It starts out:

His Excellency, the Governor General in Council, on the recommendation of the Right Honorable Prime Minister, under authority of the War Exercise Act of 1914, is pleased to make the following regulations, and the same are hereby made and enacted accordingly.

I thought it had gone through.

Mr. TRAYNOR. There seems to be some question as to who is going to administer it. They can not find anyone who is willing to take it on. The inequalities of the order in council, as it is called—an executive order, here—are so apparent that there is not any department that wants to take the responsibility of enforcing it. That is just the way we get it from our people over there. I do not know.

Mr. MORSE. What would you think of a plan of regulation based upon all of your assets, or your net worth, without any division into classes?

Mr. TRAYNOR. It would be a matter, I imagine, if we could get at a satisfactory basis, but it is hard to get at that; whether we are acceptable or not. You see what I mean? You make that proposition—whether it would be satisfactory to us or not would depend upon what it would provide in the way of returns. Mr. Swift brings up the point that any regulation of lines in which we are interested, and which are also operative by our competitors in those particular lines, but who are not in the packing business; for instance, tanning, soap, glue. Any regulation on us should be on a basis that will put us on an equality with them. If we have to compete with those people, they should not have an advantage of being unrestricted while we are restricted.

Mr. MORSE. Is that all you want to say on that proposition?

Mr. TRAYNOR. On the question of the general regulation?

Mr. MORSE. Yes; in general on these regulations.

Mr. EDWARD F. SWIFT. I would just like to add that there should not be any restriction, in my opinion, on the packers on such lines of business that they do not control as a whole. The soap business they do not control.

Mr. MORSE. Will you please tell me right there just what you do control?

Mr. EDWARD F. SWIFT. The fresh-meat business. The packers all over the United States, some thousand or so, do all the fresh-meat business. Now, in the soap business Proctor & Gamble are a very much larger factor in the soap business than all of the other factors put together. There is Kirk, another big factor. The same in the tanning business. Hundreds of large and small concerns in the tanning business besides the packers.

Mr. MORSE. Do you not also do some tanning business?

Mr. EDWARD F. SWIFT. Yes, sir.

Mr. MORSE. Isn't it big enough so that it can be designated as a per cent of the whole that you own or control?

Mr. EDWARD F. SWIFT. I do not know. I have never seen any figures that would show that. The butterine business is an independent business. MacAuley, of Chicago——

Mr. MORSE. What per cent of the butterine business do the packers control? That is, do they do themselves?

Mr. EDWARD F. SWIFT. I do not know. I have never seen any figures on that.

Mr. G. F. SWIFT, Jr. I do not know. There are bigger people right along—individual bigger people in the butterine business than any one packer. I do not know what per cent the total of the packers would be against the total of the others that are in the butterine business.

Mr. TRAYNOR. The extent is exceedingly less than one-half.

Mr. EDWARD F. SWIFT. The commercial fertilizer business, the packers are smaller than one-half. The American Agricultural Chemical Co., the Virginia & Carolina Chemical Co., those are the bigger ones. The glue business is the same way. The packers are not big factors in that; the American Glue Co. and the United States Glue Co. and various smaller glue companies throughout the United States.

Mr. MORSE. Mr. Swift, do you agree that your books at the present time show the fair value of your assets? Is the value as therein stated too high or too low, and why?

Mr. EDWARD F. SWIFT. We consider our values too low.

Mr. MORSE. On what basis?

Mr. EDWARD F. SWIFT. Proper appreciations for our real estate that we bought 30 or perhaps 40 years ago has not been taken up. Also that it would cost a great deal more—at least 50 per cent more—to replace our buildings than we carry on our books.

Mr. MORSE. Your books to-day show the value without any writing up the real estate that you purchased years ago—30 years ago, as you just stated?

Mr. EDWARD F. SWIFT. They did in our last financial statement.

Mr. MORSE. Since that time have you written up those values?

Mr. EDWARD F. SWIFT. We have to some extent—to a partial extent.

Mr. MORSE. In dollars, how much is it?

Mr. EDWARD F. SWIFT. You are talking about land?

Mr. MORSE. Yes; land only.

Mr. TRAYNOR. The figure that we put on the books, as I understand it, included part of the appreciation of both land and buildings. What we call "real estate" includes all those things, up to—since the date of our last statement we have put an item on our books which represents a part of the appreciation of our physical assets.

Mr. MORSE. By "physical assets," you mean lands?

Mr. TRAYNOR. Lands, buildings, machinery, and equipment.

Mr. MORSE. Lands, buildings, machinery, and equipment?

Mr. TRAYNOR. Yes.

Mr. MORSE. In dollars, how much was that?

Mr. CHAPLIN. $32,000,000.

Mr. MORSE. On what did you base your valuation?

Mr. CHAPLIN. Of that 32 million?

Mr. MORSE. Yes.

Mr. CHAPLIN. On what did we base that 32 million?

Mr. MORSE. Yes.

Mr. TRAYNOR. A preliminary report from the American Appraisal Co., who were making an appraisal of our properties at that time.

Mr. MORSE. As of what date did they place these values on your property?

Mr. TRAYNOR. January 1, 1914.

Mr. MORSE. Did they consider replacement values or cost values, or just how did they figure these values? On what basis?

Mr. TRAYNOR. The replacement values, depreciated to that date.

Mr. MORSE. When you say "replacement values," do you mean values of 1916 and 1917, depreciated to 1914?

Mr. TRAYNOR. No; I mean the cost of reproducing new at January 1, 1914, and discounting for the depreciation by the life of the building.

Mr. MORSE. How much was that did you say in per cent, if you know it?

Mr. TRAYNOR. I don't know it.

Mr. MORSE. In dollars?

Mr. TRAYNOR. I don't know. As I say, this is an estimate, as they had not completed their reports at that time. In fact, they have not yet, but they gave us a forecast that warranted us in using this figure.

Mr. CHAPLIN. This figure is to be adjusted when we have a final appraisal?

Mr. TRAYNOR. Yes; it will probably be considerably more than that.

Mr. MORSE. What was the date of this entry?

Mr. TRAYNOR. Sometime in December, 1917.

Mr. MORSE. You have been reporting to Mr. Chase on your investment, these increased values?

Mr. TRAYNOR. No; we made some note of it.

Mr. CHAPLIN. We excluded that in the notation on the statement.

Mr. CHASE. It was put in and taken out.

Mr. CHAPLIN. I might say that that is a matter that is to be up to the Food Administration for a vote. The question of equalizing the values of fixed assets as between the large packers.

Mr. MORSE. Well, you said something about some additional appreciation that you thought you were entitled to. Now, on what do you base that?

Mr. CHAPLIN. Base it on present-day values.

Mr. MORSE. In other words, on 1918 values?

Mr. TRAYNOR. Do you say that we are entitled to that?

Mr. CHAPLIN. No.

Mr. MORSE. You said you thought you were entitled to an additional amount.

Mr. TRAYNOR. Yes. That is correct. We think that the final report from the appraisal by the American Appraisal Co. will show that instead of $32,000,000, we will have a greater sum as representing the additional value of these properties at January 1, 1914, arrived at in the manner I have described to you. In other words, this $32,000,000 is a conservative estimate.

Mr. MORSE. Your books show the cost of these properties, do they not?

Mr. TRAYNOR. Yes.

Mr. MORSE. Do you expect at some time to be allowed this $32,000,000 and place that among your capital invested in these various classes in your business?

Mr. TRAYNOR. Yes.

Mr. EDWARD F. SWIFT. May we make a general statement?

Mr. MORSE. Yes; certainly.

Mr. TRAYNOR. As between the other packers subject to this control and ourselves, we have felt that we were at a disadvantage, because of the fact that our properties were on our books at cost and that we had liberty to appreciate them as we went along by reserves, whereas some of the packers had had their properties reappraised and had put their properties upon their books at the real appraised value, so that some companies with no bigger, or perhaps not as large a business as ours, had larger investment accounts. At least proportionately larger, and we thought that on that account we are entitled to at least an equalization with the others. Now, we made a mortgage the 1st of February, 1914, at which time we had an appraisal made; not as detailed a one as we have had recently made by the American Appraisal Co., but an appraisal by an appraisal company representing the trustees, who were well satisfied at that time with the values of our properties; that is, they were considerably above the amounts on our books, and for which bonds were authorized.

Mr. MORSE. Your business has increased very rapidly lately?

Mr. TRAYNOR. Yes.

Mr. MORSE. Probably has doubled the last three or four years, hasn't it?

Mr. G. F. SWIFT, Jr. In tonnage; not money, but in tonnage.

Mr. MORSE. You have had to make additions to your plants in order to take care of this increased business the past three or four years?

Mr. TRAYNOR. Oh, yes.

Mr. MORSE. Have you any idea to what extent, in dollars?

Mr. CHAPLIN. In 1917 there was $7,000,000 charged to investment account. The previous year was somewhat less.

Mr. MORSE. Your plant, on account of this increase, is greatly crowded at the present time?

Mr. G. F. SWIFT, Jr. The increased business?

Mr. MORSE. Yes.

Mr. G. F. SWIFT, Jr. Yes; at times. Especially our storage facilities.

Mr. MORSE. You are not probably operating as efficiently now as you were three or four or five years ago, on account of your largely increased business and lack of facilities and things of that kind?

Mr. G. F. SWIFT, Jr. Well, I would not say there was any great difference. There might be some slight difference. Possibly some things are not being done as efficiently from the fact of the expense standpoint on account of going outside for storage and extra switching charges, and one thing or another.

Mr. MORSE. That is what I mean. Not being arranged as efficiently as it could have been if you had had room and facilities to make an ample plant?

Mr. G. F. SWIFT, Jr. Yes; and the money.

Mr. MORSE. And therefore, of course, your expenses are increased to a certain extent. Isn't that true?

Mr. G. F. SWIFT, Jr. Yes; that is true.

Mr. MORSE. If you had to build over in a new plant to take care of your business, you would not have had it arranged the same as at the present time, would you?

Mr. G. F. SWIFT, Jr. I would not say that there would be much difference in the arrangement. I think it is largely a question of increasing the facilities.

Mr. MORSE. Well, I mean more efficient arrangement; switching facilities, refrigeration facilities, and things of that kind. You know one plant can be arranged so that it is very efficient and things are handy to each other, and then again a plant may be arranged so that you have to go all around it in order to reach your various departments where you want to put the stuff, and the latter is not as efficient as the former. That is true?

Mr. G. F. SWIFT, Jr. Yes; but our plants are pretty well located and pretty well adjusted. All we need is a few more buildings or a few higher ones.

Mr. MORSE. Do you think the packers could do business somewhere else cheaper than they could in Chicago if they had the plants? For instance, you take a small town, or if you built a town like some other of our industries have done, and put up ample plants, don't you believe that you could operate more cheaply and efficiently than you do right here in Chicago? You would not require the same amount of assets in dollars that you now require on account of the high price of land and buildings here in Chicago.

Mr. EDWARD F. SWIFT. May I answer that?

Mr. MORSE. Yes.

Mr. EDWARD F. SWIFT. My opinion is that we can not operate any cheaper at any other point for the reason that the packing business has been a business of evolution and has been constantly improved on, both methods and machinery.

Mr. MORSE. Could you have the same improved methods and machinery in another place that you have got here in Chicago?

Mr. EDWARD F. SWIFT. Could we have the same?

Mr. MORSE. Yes; any reason why you could not?

Mr. EDWARD F. SWIFT. No.

Mr. MORSE. Isn't it a fact that the principal drawback to establishing the industry in a small town is on account of the labor question?

Mr. EDWARD F. SWIFT. What is that question?

(Question read.)

Mr. MORSE. Do you think that would be a factor?

Mr. EDWARD F. SWIFT. The labor question?

Mr. MORSE. Yes; if you went to a smaller place.

Mr. EDWARD F. SWIFT. No; I think not. I see no advantage in a small town.

Mr. MORSE. Well, you have studied over that proposition, have you, Mr. Swift?

Mr. EDWARD F. SWIFT. Yes.

Mr. MORSE. And you do not think that the packing industry would be better off, as far as profits are concerned, and the general public and all around, as if they went to a smaller place?

Mr. EDWARD F. SWIFT. No. I think a large place has a distinct advantage in the way of the labor standpoint. General terminals; getting the raw material, and so forth.

Mr. MORSE. I do not know as my opinion amounts to much, but I think it would be a distinct advantage, if it was not for your terminals—there is where there would be an advantage.

Mr. EDWARD F. SWIFT. Labor always flocks to the centers. Especially in the winter, labor flocks to the cities. Ours is practically a floating supply of labor, which you can not work to advantage in a small town. They vary here 20 or 30 per cent in a week. It is not unusual at all to have two or three weeks heavy receipts. The product has to be handled. The next two or three weeks will be lighter receipts. Our business is not steady every day in the week, like a steel mill or something like that, and we have to have a supply of labor that is floating, to a very considerable extent.

Mr. CHAPLIN. Then also the distribution of the products. Take all the railroads, spreading all over the country——

Mr. MORSE. Well, that is what I said before.

Mr. CHAPLIN. Now did you have in mind just the Chicago situation?

Mr. MORSE. Why, I had in mind the Chicago situation here, that you might operate more efficiently and cheaper if your buildings had been arranged better for you.

Mr. EDWARD F. SWIFT. May I answer that by saying that they are constantly being rearranged.

Mr. MORSE. That may be, but take a section which is as crowded as it is here, you can not make out as well even if you are constantly rearranging them, than if you had the room you want.

Mr. G. F. SWIFT, Jr. You have all the room you want right here in Chicago. The evolution of the business has been to go up in the air. Take that building that you see over there, seven stories high. [Indicating.] It used to be two stories. Like this one here, when we bought it. If we had had the land next to it we would have built the building higher. We would not have built two buildings. We would have gone up.

Mr. MORSE. The proposition is, you would not have needed such a large investment.

Mr. CHAPLIN. What would we do with this investment here?

Mr. TRAYNOR. It is pretty expensive to reproduce a plant the size of this, any place now.

Mr. MORSE. Well, that is probably true. I was only discussing this from an economic standpoint.

Mr. CHAPLIN. This is only a small part of the factory here in Chicago. The business is all over the country. This is only a small part of it.

Mr. EDWARD F. SWIFT. You know that we have a number of other plants—St. Paul, Fort Worth, St. Joseph, and Denver.

Mr. WHIPPLE. The rules and regulations call for three classes. Now do you believe it is possible to accurately divide your business and investment—your profits into those three classes?

Mr. G. F. SWIFT, Jr. Practically so; yes.

Mr. WHIPPLE. You think it can be divided so that there is so much profit in class 1 and so much in class 2 and so much in class 3?

Mr. G. F. SWIFT, Jr. Yes, for all practical purposes; yes, sir.

Mr. CHAPLIN. Approximately.

Mr. WHIPPLE. How near would you say the approximation ran? Is the line of demarcation very clear, in other words, or does it grow very hazy in some sections?

Mr. CHAPLIN. It is very clear in most cases.

Mr. G. F. SWIFT, Jr. And the fact that we do it.

Mr. MORSE. But you do not get actual results.

Mr. G. F. SWIFT, Jr. We get preety near.

Mr. MORSE. Well, pretty near is not actual. When I used the word "actual" I meant correct; definite.

Mr. G. F. SWIFT, Jr. I think we get it actual enough for all practical purposes.

Mr. MORSE. You may get it as near as you can, but it is not actual.

Mr. G. F. SWIFT, Jr. For all practical purposes. We pay department heads for results, and if we feel that he is not producing—he can not produce them unless he has got an actual practical division of the expense. That is what we base our salaries and these things on.

Mr. CHAPLIN. Take the big ends of the business; the commercial fertilizer business and the tanning business. That is entirely distinct; no connection at all. Those are all the big things.

Mr. WHIPPLE. You mean to say that you think for the purposes of these rules and regulations you can so divide all the phases of your business as to live within the regulations set forth here?

Mr. CHAPLIN. Yes, sir.

Mr. WHIPPLE. Your costs in your various departments you know that is in your various classes, and you know therefore if you know your cost and know your income, you know your actual profit for the period.

Mr. CHAPLIN. Yes, sir.

Mr. WHIPPLE. Now do you strike any difficulty in the transfer of those by-products from one department to the other or from one section to the other?

Mr. CHAPLIN. No. We have that transferred at the full market price.

Mr. WHIPPLE. Transferred at the full market price. Do you find any difficulty in arriving at the full market price for all of your various products?

Mr. CHAPLIN. Oh, there are some minor items that there might be same questions on, but the big things are all very clear.

Mr. WHIPPLE. The big things are all very clear, as far as hides, fats, and things like that, you can divide those absolutely?

Mr. CHAPLIN. Yes, sir. They have a stated market price.

Mr. WHIPPLE. The assets shown on the books of subsidiary companies or branch houses, are they in accordance with the same general plan as the plan of showing up your investments on the parent company's books? Can they be divided into those same classes?

Mr. CHAPLIN. Yes.

Mr. WHIPPLE. Now would you have any difficulty under the existing conditions, of making up consolidated balance sheets—detailed consolidated balance sheets which would show all of those three classes?

Mr. CHAPLIN. A consolidated balance sheet?

Mr. WHIPPLE. Yes.

Mr. CHAPLIN. No, I think not.

Mr. TRAYNOR. That is, showing the assets in the three classes?

Mr. WHIPPLE. Yes, enumerating the assets which appear in the three classes in your home office, your branch offices, and in your subsidiary companies, so that in case you wanted to make up a consolidated balance sheet for all of your subsidiary companies, you could fall into that class? In other words, this uniform balance sheet which a gentlemen interested in a uniform system is finished as they desire it, you think you can fall right into line with that, with your books in their present condition?

Mr. CHAPLIN. There would be some things that would have to be based on pro rata divisions.

Mr. WHIPPLE. But do you think that with the proper amount of investigation there is anything there which can not be determined?

Mr. CHAPLIN. No.

Mr. WHIPPLE. You believe that by proper engineering facilities and accounting facilities you could determine that absolutely?

Mr. CHAPLIN. Yes, sir.

Mr. WHIPPLE. Now, does the same thing apply to your nominal accounts? That is, I mean to say, your profit and loss statements? Could you make up a detailed profit and loss statement upon all your branch houses and subsidiary companies, in a detailed profit and loss statement with the parent company? For instance, showing your gross sales and showing the net sales and the cost of the goods sold and the items that enter into it, and your administration in general expense as a whole, in net figures on that profit and loss statement?

Mr. CHAPLIN. Well, that is rather an involved question. Some of these expenses, of course, have to be prorated. Our administrative expense has to be.

Mr. WHIPPLE. Well, of course, with the exception of the proration, you feel that could be gotten out in detailed form without your present system of accounts having to be revised?

Mr. CHAPLIN. No, I think we can do it. As I said, there has to be some prorating of some things. We have to determine what is the proper basis for splitting certain things up.

Mr. WHIPPLE. You speak of proration. Does your term "proration" apply only to these expenses such as administrative expense, which we know in all concerns, has to be made up on some basis which everybody considers equitable, or are there some items which would have to be prorated? Would your labor have to be prorated?

Mr. CHAPLIN. No. Take the items of getting the direct cost in the case of our branch houses. We have the actual result.

Mr. WHIPPLE. Do those accounts of your branch houses fall right in line with those of your old parent company? That is, are they modeled on the same general plan as your accounts here are kept?

Mr. CHAPLIN. Yes, sir.

Mr. WHIPPLE. So that at the end of a year or the end of a period you could tell what your gross sales were in any particular place?

Mr. CHAPLIN. Yes, we know the gross sales at all our branches or all our plants; but we have not got the gross sales in each department.

Mr. WHIPPLE. But on your general books here you have no controlling account which would show those items in your branch houses? Your branch houses and subsidiary companies I take it are held by one control account?

Mr. CHAPLIN. No; we have probably four or five accounts covering our branch houses. We have a capital account and a building and machinery account and an account for the goods that we ship them. Probably six or eight accounts that would constitute the total.

Mr. WHIPPLE. Do you keep control of branch-house sales?

Mr. CHAPLIN. No; we compile that.

Mr. WHIPPLE. You compile that from the branch house reports? You get them by one source or another and change your books so as to establish controls on your home office books, or else by a system of auditor's reports and you have no need of these details which would be necessary under this regulation here?

Mr. G. F. SWIFT, Jr. Bring them right back to their respective departments. In fact, some of our competitors do that. They bring a ham sold at a branch house back to their same house.

Mr. WHIPPLE. Now I take it that your balance sheets show that a considerable part of the capital invested in your business is largely borrowed money?

Mr. EDWARD F. SWIFT. Yes. There is no doubt about that, I am sorry to say.

Mr. WHIPPLE. How much is borrowed money costing you at the present time?

Mr. TRAYNOR. Six per cent.

Mr. WHIPPLE. On this borrowed money do you consider you are entitled to make the same rate of return as you are on your own investment?

Mr. EDWARD F. SWIFT. We understand it that way, certainly. We all understand it that way.

Mr. WHIPPLE. And considerable capital is represented by accumulated earnings. Do you also consider that is entitled to the same return as your original investment in the business?

Mr. TRAYNOR. When you say entitled to, do you mean under this private control?

Mr. WHIPPLE. No, I mean in your own minds.

Mr. TRAYNOR. In our opinion of our business, it should.

Mr. CHAPLIN. We figure there ought to be an earning on every dollar of value that is invested in the business, no matter where it came from.

Mr. WHIPPLE. In other words, your original investment on which you ran a long chance and took big chances in establishing a new enterprise, is entitled to no more earning than the money which has been paid in recently, and which if necessary you could go out and float a bond issue to cover probably at 6 per cent?

Mr. EDWARD F. SWIFT. Yes; we considered we are entitled to the same rate.

Mr. WHIPPLE. That is, you are entitled to the difference between what you pay for money and what you make out of it?

Mr. EDWARD F. SWIFT. A bond issue can not be floated for 6 per cent. One company put out one that cost them 8 per cent. Procter & Gamble put out one that cost them 10 per cent. The fact of

a person borrowing money at 6 per cent is not a fair rate, because you know you have to have a bank account and you have to have connections and all that, to be able to borrow money.

Mr. MORSE. You mean 6 per cent security would have to be considerably below par?

Mr. EDWARD F. SWIFT. I mean a 6 per cent security about 92 cents a share. It averages to be paid in three years. I know that that money costs me over 8 per cent.

Mr. CHAPLIN. If you go to the bank and borrow $100,000 they expect you to leave about fifteen or twenty thousand of it as a balance. You only really get about $80,000 actual money in that case.

Mr. MORSE. Some 30 years ago your capital, you said, was about $300,000, and at the present time it is approximately fifty millions. Has that increase been made up, most of it, through earnings which you have capitalized or will capitalize, or is it, the greater part of it, new money that has been invested in the business?

Mr. TRAYNOR. Well, the capital will be, when this present increase is effective, $150,000,000. All of that, with the exception of $25,000,000, which is the recent stock dividend, has been paid in in cash, 100 cents on the dollar.

Mr. MORSE. That is what I want to get.

Mr. EDWARD F. SWIFT. One hundred and twenty-five million out of one hundred and fifty, at par.

Mr. MORSE. Then there is absolutely no water at all, is there?

Mr. TRAYNOR. No, sir. On the contrary, we have not an item of good will among our assets, trade-marks or anything of that kind. Surely the good will of this business this last year amounting to $875,000,000 in sales is an asset.

Mr. MORSE. You have absolutely no so-called "water" in your capital?

Mr. TRAYNOR. Not one drop.

Mr. TATOR. Just at that point, you say that all of this money has been paid back, but to what extent have you issued dividends out of the surplus simultaneously with a new payment in of cash for stock issued?

Mr. TRAYNOR. Paid back?

Mr. TATOR. Yes.

Mr. TRAYNOR. I said that all of the capital had been paid in in cash with the exception of $25,000,000.

Mr. TATOR. You are technically correct. I know that is true. But I also recollect a dividend two or three years ago of $25,000,000 or $33,000,000, which was it?

Mr. TRAYNOR. $25,000,000—33 per cent.

Mr. TATOR. Now, at that time you paid a cash dividend and approximately at the same time you issued new stock?

Mr. TRAYNOR. To those who wanted to buy it?

Mr. TATOR. To those who wanted to buy it?

Mr. TRAYNOR. Yes, sir.

Mr. TATOR. And to that extent that was capitalizing the surplus—not technically speaking, but practically it amounted to that, didn't it?

Mr. TRAYNOR. No. No more than 6 or 7 or 8 per cent that we paid in all those years.

Mr. TATOR. I know your viewpoint of that. But here is what it amounts to. You paid $25,000,000 in dividends and the same stockholders had a right to turn it back and take stock?

Mr. TRAYNOR. Yes.

Mr. TATOR. And the majority of them did that?

Mr. TRAYNOR. Yes.

Mr. TATOR. Practically all of them did it. I say, to what extent has your capital increased in that way prior to that last $25,000,000 in 1916 or 1917?

Mr. EDWARD. F. SWIFT. That could be arrived at by getting our total dividend.

Mr. TRAYNOR. I have not it all in mind, but that is the only one in my experience with the company, which covers 17 years. That was a cash dividend and it was a cash subscription of stock. It was not a stock dividend.

Mr. TATOR. I agree with you technically that is true, but practically it is not.

Mr. TRAYNOR. No; that is wrong. If they did not want to buy the stock with it they could have bought an automobile.

Mr. MORSE. True, they had the option, but the practical effect of it was that you supplied the cash to these people in order to buy the automobile if they wanted to do it.

Mr. TRAYNOR. We paid $25,000,000 cash dividend and at the same time we authorized an issue of $25,000,000 worth of stock to the stockholders of record who wished to avail themselves of an opportunity to buy it.

Mr. MORSE. And if a man did not want to avail himself of that, he did not do it, as you say. He bought an automobile, or he spent the money, or he kept it?

Mr. TRAYNOR. Yes, sir, and some of them did.

Mr. MORSE. But most of them did buy stock; so that you provided them with the purchase price to buy these new shares?

Mr. TRAYNOR. If they wanted to.

Mr. MORSE. That is the practical effect of it?

Mr. EDWARD F. SWIFT. Notwithstanding all that there is no water in the stock; not a penny's worth of water in the stock. And may I say that up to that time we never paid over 8 per cent, and sometimes only 6 per cent over a series of all these years, and if anyone was figuring what our dividends were you would have to figure it over those 30 or more years.

Mr. MORSE. And Mr. Swift, prior to the time which you raised your capital to one hundred million instead of seventy-five million, how much of the seventy-five might be put in the same class as that twenty-five million?

Mr. EDWARD F. SWIFT. Never over 8 per cent in any one year, because we never paid over 8 per cent total.

Mr. MORSE. The rest of the capital represented money paid in?

Mr. EDWARD F. SWIFT. It did. We can not agree, that our cash dividends are used for capitalizing the company, because a man gets $8 in a year, he has the chance as we did increase our stock from a smaller amount to ten or fifteen million dollars, that man never got over $8 a year. Now, he had to go out and dig up the other $92 somewhere outside of the $8 he got; and you can not consent to the proposition that our dividends are capitalizing the company. Our divi-

dends have only been a very reasonable return on our money, and taken into concern, less than any other large business in the United States.

Mr. CHAPLIN. I would like to ask Mr. Tator what his point of view is on money that has run the life of the business; whether that is entitled to the same profit?

Mr. MORSE. Suppose that Mr. Whipple asks you that question, since you have asked Mr. Tator.

Mr. WHIPPLE. I have asked that question already. I do not think that in the position Mr. Tator is in he is competent to answer that at the present time, because it is a question for the commission to decide, and there is no man here representing the commission who would care to decide that question. In fact, that is a question that will be put up to the commission itself to decide, and always has been.

Mr. CHAPLIN. It would seem that a dollar from one place or a dollar from another is entitled to the same opportunity to earn. One dollar is not any different from another one.

Mr. WHIPPLE. Well, there are different views on that among good authorities.

Mr. EDWARD F. SWIFT. May I say something about that in connection with other phases?

Mr. MORSE. I do not believe anyone has got any view on that, Mr. Swift, at all.

Mr. EDWARD F. SWIFT. The point I want to make is that our dividends must be spread over a series of years.

Mr. WHIPPLE. There is one question I would like to ask in connection with this work. In arriving at the product of your business, can it be arrived at accurately in all lines or in certain lines for a smaller period than a year, or a complete cycle of operations, or an order to do the business justice, must the profit be taken as over the whole year?

Mr. EDWARD F. SWIFT. I think it is very necessary to take a whole year for the reason that some product is carried at least six to eight months.

Mr. WHIPPLE. You mean that you have seasonal operations which could only be determined by looking at the business as a whole?

Mr. EDWARD F. SWIFT. Yes, sir.

Mr. WHIPPLE. Then in order to form a conclusion as to the result the business of any packer or the sale of any packer may be, you would have to look at the business of the year?

Mr. TRAYNOR. Yes. Six months would mislead you.

Mr. G. F. SWIFT, Jr. Yes. Six months would mislead you more than it would lead you, because I think if you will look over you would find the history showing that where six months were good or bad, in seven cases out of ten the next preceding six months were the opposite.

Mr. WHIPPLE. Well, now, would you as packers, or would the packers as a whole, welcome a system of cost finding which would be uniform for all of the companies?

Mr. G. F. SWIFT, Jr. It would be very satisfactory to us.

Mr. WHIPPLE. That is, if the commission went to work and picked out and got in some and threw out the bad in others, and picked out

the good points all over and tried to thrust that system upon you, if you might call it such.

Mr. EDWARD F. SWIFT. It is a matter of information.

Mr. CHAPLIN. Yes. We are very favorable to that.

Mr. WHIPPLE. Now, in considering the return on the capital invested in the business, or the net worth, or however it is to be determined, it is usual to look into the risk or the extraordinary hazards of each business. Now, has this business any extraordinary hazards, and in connection with it in that discussion, just as much as possible leave out the question of fluctuation in market. Now, the fluctuations in the market, we understand, are a large factor from the point of the packer. Now, just keep the two distinctions separate. Discuss either one as much as you want, only keep the two distinctions separate. That is, first discuss the market hazard; the fluctuations in the market, and then what you might call any uninsurable hazards which affect your assets; such as fire, or explosions, or an act of God which would affect your property as a whole.

Mr. EDWARD F. SWIFT. The first is the market fluctuation which I have given an illustration of, considering we are liable to show a depreciation of $20,000,000 in any one year on a department covered by our 9 per cent rule. About the hazard of lightning or fire or unforeseen contingencies that should—that is very apt to happen, and it is very apt to hit one packer harder than another. One might escape, and another one might get severely crippled. Or, in other words, if our plants at Kansas City should be struck by a cyclone, or the Kaw River should overflow and practically keep us from operating for three or four months, we are at a very serious disadvantage in taking care of our business, and our trade loss would be something enormous.

Mr. WHIPPLE. Then, your loss in that case would be due practically to the ravage of the flood or the cyclone; practically due to the idle time of your plant?

Mr. EDWARD F. SWIFT. And some one else taking our trade meantime.

Mr. WHIPPLE. Loss of trade?

Mr. EDWARD F. SWIFT. Loss of trade.

Mr. WHIPPLE. That would come under the idle time of your plant?

Mr. EDWARD F. SWIFT. No. The loss in trade would be very much more important.

Mr. WHIPPLE. The loss of trade would be more important. Do you think it would be more important?

Mr. EDWARD F. SWIFT. It would be more important; yes, very important.

Mr. WHIPPLE. I do not suppose you are insured against floods or cyclones on the Kansas City plant, are you?

Mr. EDWARD F. SWIFT. I don't know. No; I think not.

Mr. WHIPPLE. But all of your buildings and machinery are covered by fire insurance, I take it?

Mr. EDWARD F. SWIFT. Yes, sir.

Mr. G. F. SWIFT, Jr. Just a point on the insurance there. There are at the present time, I think, we are at an unusual estimate on our insurance because of the present values and the impossibility to insure our full product. For instance, now a certain building has a limited insurance value. You can only insure so many dollars' worth

of product in that building. With those values you can not get full insurance. For instance the capacity of a building under normal times might be $400,000. Four hundred thousand dollars is as much of a risk as they will carry on that building. Under the present value the building will carry $600,000.

Mr. EDWARD F. SWIFT. May I say that we carry a larger stock than ever before in pounds; not only in value but in pounds? Our stock is larger than ever before. May I correct a statement that was made awhile ago by Mr. Swift? You said that our business was much larger in value but not necessarily in tonnage.

Mr. G. F. SWIFT, Jr. I did not mean to say that, if I did.

Mr. WHIPPLE. He said it had almost doubled in value, but not tonnage.

Mr. G. F. SWIFT, Jr. I think perhaps 50 per cent in tonnage.

Mr. MORSE. Mr. Swift, how is your business insured? Do you insure your business—your buildings in the old-line insurance companies, or do you carry your own insurance company?

Mr. G. F. SWIFT, Jr. We had some. We do some of them, I believe.

Mr. MORSE. You carry some of the risk yourselves and some you carry with the old-line companies?

Mr. EDWARD F. SWIFT. Largely in the old line companies, but we have an insurance company that we do carry a portion of it ourselves.

Mr. MORSE. Will you mention some risk that you have had in recent years that made any considerable loss?

Mr. CHAPLIN. Six or seven years ago, or, perhaps, 10 years ago.

Mr. MORSE. Whereabouts was it?

Mr. CHAPLIN. Kansas City and St. Louis and St. Joe.

Mr. MORSE. How much money did you lose about at that time?

Mr. CHAPLIN. I think a little over a million dollars.

Mr. MORSE. That was 10 years ago?

Mr. CHAPLIN. Yes.

Mr. MORSE. Have you had any since?

Mr. CHAPLIN. There were two bad floods at Kansas City.

Mr. MORSE. You say one was 10 years ago? When was that?

Mr. CHAPLIN. I think two years before.

Mr. MORSE. You had one 10 years ago and one 12 years ago?

Mr. CHAPLIN. Yes, sir.

Mr. MORSE. You say a million dollars you lost in the one 10 years ago?

Mr. CHAPLIN. Yes, sir; in one of the floods.

Mr. MORSE. How much in the other one?

Mr. CHAPLIN. I do not recollect. The loss was considerable.

Mr. MORSE. Has there been any loss since that time, through those two floods?

Mr. CHAPLIN. There have been some small stoppages; not very great, four or five thousand dollars.

Mr. MORSE. To what extent, do you know?

Mr. CHAPIN. Oh, I suppose, perhaps, a thousand dollars. That is not counting in addition to the intervention of the business.

Mr. MORSE. Have you had any other losses—uncontrollable losses?

Mr. CHAPLIN. We have had some losses from cyclones; not serious.

Mr. MORSE. When were those?

Mr. CHAPLIN. There was one, I think, last year down at St. Joe that did some damage and at Omaha and St. Louis; not serious.

Mr. MORSE. In other words, for the past 10 years you have had no damages through things of that kind; floods or fires or things that you could not insure against that amounts to over 5, or 10 or 20 thousand dollars, in 10 years?

Mr. CHAPLIN. Except the one of a million dollars.

Mr. MORSE. Well, that was 10 years ago, I understand?

Mr. CHAPLIN. That was 10 years ago.

Mr. MORSE. You have had none since?

Mr. CHAPLIN. No. not serious. Of course, we are still situated as we were then. Any year we are liable to be flooded and it requires just a necessary combination of circumstances.

Mr. MORSE. In other words, there is no particular hazard in this business. It is a pretty stable, standard, substantial business, isn't it?

Mr. G. F. SWIFT, Jr. I think it has about its average hazards outside of the market.

Mr. MORSE. Well, keep that out for this reason. I think that is part of the business, price fluctuation.

Mr. EDWARD F. SWIFT. But, if you will allow me, this is an extraordinary time. Prices have advanced to such a point, to a higher point than they ever advanced except during the Civil War in the United States, and the hazard is much more than usual.

Mr. MORSE. Do you think there is going to be a great slump in meat prices after the war?

Mr. EDWARD F. SWIFT. I think there will be considerable reduction in prices after the war, and I would like to tell you the reason why.

Mr. MORSE. I would like to hear that.

Mr. EDWARD F. SWIFT. Because England and France will buy their meat and wheat from South America and Australia instead of from the United States, and at the present time there is at least 20 per cent—of the five large packers—there is at least 20 per cent going to France and England, as against possibly 5 per cent before the war. With the 20 per cent that is now going to England and France, that will have to be consumed at home and there will be a natural reaction. I think it is inevitable.

Mr. MORSE. Well, why is that? Why will England and France get their meat products from Australia?

Mr. EDWARD F. SWIFT. Because she will have the ships to carry it. That is the reason she is not getting it now, and the only reason. It would come from Australia and South America and the price would regulate itself. If they had the ships it would be natural to get it from there. Anyway, five years ago the United States was shipping no beef to England or France. Now they are shipping at least 20 per cent of their slaughter and as soon as the ships are available to bring it the longer distance it will come from South America and Australia to England and France again.

Mr. MORSE. But on the admirable system that you people have of selecting your cattle and handling them and cutting them up and shiping them to England, don't you think the Englishman is going to like this beef and want it in preference to the more crude methods of Australia and South America?

Mr. EDWARD F. SWIFT. No. We have been through that 20 years ago. We shipped cattle and beef to England and France up to the

time of the war it had dwindled to nothing. South American beef has taken its place. It will be the same way after the war. They have very fine beef in South America.

Mr. MORSE. Well, I suppose you ship it to South America and Australia just the same?

Mr. EDWARD F. SWIFT. The same improved methods.

Mr. MORSE. I would not like to say they have as good methods there as here, on account of my natural pride in America.

Mr. EDWARD F. SWIFT. No. The average beef is no better and Australia and New Zealand is the finest lamb and mutton country in the world.

Mr. MORSE. You will be the ones that will ship from those countries after the war if what you say takes place.

Mr. EDWARD F. SWIFT. Only to a small extent. There are English and South American companies to engage in the business.

Mr. MORSE. I guess among the big packers though you have the biggest percentage of business in these countries, don't you?

Mr. EDWARD F. SWIFT. No; I think not. In Australia and New Zealand, small; but I want to emphasize the point, I think you do understand it, but I want to make sure of it: That it is inevitable that the wheat and meat will come from Australia and South America to England and France. We won't have that trade. There is no question about it, because when the war is over there will be the ships. The tonnage will be there and will be thrown right into that business. England and France and the United States are all building ships as fast as they can and that is the principal reason of these very high prices in hogs and cattle at the present time. They have gone to these foreign countries.

Mr. MORSE. Personally, I think that prices may recede somewhat after the war but I do not think there is going to be a slump.

Mr. EDWARD F. SWIFT. I quite agree and I tried to be very conservative in this 5 cents a pound, in stating that it was only 20 per cent off, although the prices had been doubled since before the war. I want to be reasonable on that.

Mr. MORSE. You want to wait until about four or five years after the war if you want a panic.

Mr. EDWARD F. SWIFT. I am not anticipating a panic.

Mr. MORSE. That is when the reaction will take place.

Mr. EDWARD F. SWIFT. I am saying that this 20 per cent of meat and wheat that is going from the United States to England and France will come from South America and Australia. It did before the war and it will after the war; it is simply a question of shipping and nothing else.

Mr. WHIPPLE. In your opinion it is nothing more than a question of ships at the present time?

Mr. EDWARD. F. SWIFT. Yes, sir.

Mr. CHAPLIN. There is another question that will determine the prices and that is the question of wages; employment in this country. After the war there will probably be industries that will have to discontinue. I do not think they will have enough money to buy meat. Meat must be sold, so it must be sold cheaper.

Mr. WHIPPLE. Oh, it will have its effect.

Mr. CHAPLIN. Of course, it won't absolutely control. In other words, if a man gets 4 pounds now for a dollar and then he will get 10 pounds for a dollar, he will only have to spend 50 cents.

Mr. WHIPPLE. I think it has been proven in the past that immediately after a big war is over there is not such a big depression as there is a few years afterwards.

Mr. CHAPLIN. I think we all agree on that.

Mr. WHIPPLE. I think that is the way you will find it after this war is over.

Mr. EDWARD F. SWIFT. I never expect to see our live-stock prices or our grain prices what they were on an average of 5 or 10 years before our war. I never expect to see that.

Mr. WHIPPLE. Well, I presume it is a factor, too, as far as the price of meat is concerned, and the cattle situation—these large ranges in the West will produce a great number of cheap cattle.

Mr. EDWARD F. SWIFT. There are more cattle in the United States now than there ever was before.

Mr. G. F. SWIFT, Jr. More cattle and more hogs.

Mr. WHIPPLE. They are not bunched together on large tracts of land? They are more scattered around, are they not?

Mr. G. F. SWIFT, Jr. Yes.

Mr. WHIPPLE. The transportation question enters in there?

Mr. EDWARD F. SWIFT. In a good many of these large tracts of land there are more cattle than there used to be. In some of the sections the land has been taken for cotton, but there is no doubt but what the United States is capable of producing a great deal more grain and live stock than ever before, but on a small scale.

Mr. EDWARD F. SWIFT. Yes, sir.

Mr. WHIPPLE. Then the question of transportation enters in, doesn't it?

Mr. EDWARD F. SWIFT. No.

Mr. WHIPPLE. Don't it cost more to transport small quantities of beef than large quantities?

Mr. EDWARD F. SWIFT. Not up to a carload.

Mr. CHAPLIN. The land on these ranches will carry more cattle to-day by artificial feeding and saving of hay and so forth. They can winter more cattle.

Mr. MORSE. So there is nothing in the proposition from your point of view of the scattering of the cattle being due to the big ranches being done away with?

Mr. EDWARD F. SWIFT. No. It is proven in the increase of cattle in each of the last two years. That is a general statement. I say a portion of it has been taken for cotton; but where they have split it up they will take better care of the cattle, and, as Mr. Chaplin says, find ways of raising the food artificially, and I think it is safe to say that the live-stock business has increased in all its branches.

Mr. CHAPLIN. Then, they breed them up and sell them younger?

Mr. EDWARD F. SWIFT. In times of advancing prices on manufactured products it is inevitable that in any well-managed business the profits will exceed the normal profits, and it is equally inevitable in declining markets that the profits will be less than normal.

Mr. CHAPLIN. That is also true in the raising of live stock.

Mr. WHIPPLE. Now, I want to ask, do you believe that the uniform rate of depreciation on buildings and machinery and any other equipment that you have got would be applicable to all companies, or should each company be judged on its own assets? In other words, do you think every company should be judged on its merits by itself, or would one rate apply to all companies?

Mr. CHAPLIN. Well, I think it would apply only on an average; not quantities. It would be too much for one company and too little for another.

Mr. WHIPPLE. As far as the depreciation rate within one company, do you believe that it should be at one fixed rate, or should the separate parts of the industry be given the benefit of different depreciation rates? That is, for instance, should buildings be given 2 per cent and machinery be given 10 per cent and your wagons and automobiles a different percentage, or could it all be charged at one rate?

Mr. CHAPLIN. Well, I think it all depends on how much detail you want to go into. We figure our buildings at one rate and our machinery at another.

Mr. TRAYNOR. We classify our buildings.

Mr. WHIPPLE. Well, have you in your business sufficient detail to go into the various classes?

Mr. CHAPLIN. Yes, we could dig it out.

Mr. WHIPPLE. You could classify your equipment then and take an average of the classes?

Mr. CHAPLIN. We have not got the details for the different machines, but we could take an average figure.

Mr. MORSE. I might say that my experience in large manufacturing plants is simply like this: You may depreciate buildings anywhere from 1 and 2 and 3 per cent, according to what those buildings house. They may depreciate their machinery anywhere from 2 to 3 up to 10 or 15 or 25 per cent, or even 33⅓ per cent, according to the nature of the machinery. Automobiles over 25 or 50 per cent, and throughout the different classes of assets, so that when you would take all those percentages and the dollars represented and average them up, you will find you might have an average rate of depreciation of between 4 and 5 per cent. Now, is such a thing as that possible in this industry?

Mr. CHAPLIN. It is possible.

Mr. MORSE. Well, you do not, however, arrive at your depreciation in any way like that?

Mr. CHAPLIN. No; we do not.

Mr. MORSE. How do you arrive at your depreciation? I know I am getting into a very big subject.

Mr. CHAPLIN. Well, we have a rate of 2½ per cent on buildings in our own packing houses and 8 per cent on machinery, which we think is fair. At our branch houses we have rates based on the different types of construction. We have one rate on concrete and one on modern mill constructed buildings and another rate on old time buildings. A separate rate on machinery. We have separate rates on automobiles and wagons.

Mr. MORSE. How do you distribute your overhead? Now that is another big question. Do not take up too much detail on that.

Mr. CHAPLIN. The overhead on what?

Mr. MORSE. The overhead expense. How do you distribute the overhead on your plant?

Mr. CHAPLIN. What do you call overhead?

Mr. CHASE. General administration.

Mr. MORSE. Oh, superintendents, insurance, taxes on buildings, and things of that kind.

Mr. CHAPLIN. Insurance and taxes is based on the values of the house and the building, with the department in it. The value is so much. We arrive at the value of each department—the insurable value—and we pro rate the total insurance for the plant on that basis, month by month.

Mr. MORSE. How do you take general administrative expenses?

Mr. CHAPLIN. Administration expense is based on the output; the sales. Each dollar of sales stands its share of the administrative expense. One-half of 1 per cent, or whatever we have fixed. Superintendents is based on labor.

Mr. MORSE. I am going to show you a figuration made up by Mr. Chase which is headed: "Percentage of profits and net worth." This is on the plant of Armour, yourselves, Morris, Wilson, and Cudahy, and net worth is divided up between class 1, class 2, and class 3, and your total net worth; and then allowed percentages—percentage of profit, and so forth. The basis for this calculation is the last four months' pro rata, so as to take in an entire year, and I want to ask you what your explanation is as to the variation of these different percentages as between the different plants that I have mentioned. I wish further to call your attention to the fact that the total percentages, that is on the total business, you do not find the same variation that comes down to where they are more equal.

Mr. EDWARD F. SWIFT. I do not feel that we could answer that question now without further study. I do not think we are sufficiently familiar with the subject to answer it, and I do not think it would be fair to you or to us.

Mr. CHASE. We know that from the bottom of the record here, that Swift & Co. are going to earn aproximately 25 per cent on their net worth; that is on capital plus the surplus, this coming year.

Mr. EDWARD F. SWIFT. We think a mistake has been made in these figures by including our foreign business for the year and multiplying it by 3, for the next eight months, and that the figures will be considerably less. We propose to give you a written statement of our records of the same by 12 o'clock Wednesday, which will be made a part of the record. We also think that each class, class 1, class 2, and class 3, should be dealt with entirely separate. From our standpoint they should be dealt with entirely separate. And we further think that the question of foreign profits should not be associated in any way with domestic profits.

Mr. MORSE. I understood you to say, Mr. Swift, at the beginning of the conversation here, you made a statement that you did not think this regulation had been in force long enough to test its practicability one way or the other. Did you make such a statement?

Mr. EDWARD F. SWIFT. Yes, sir.

Mr. MORSE. You did?

139888—S. Doc. 110, 66-1——5

Mr. EDWARD F. SWIFT. Yes, sir; as to profits.

Mr. MORSE. How long do you think this present regulation should be in force before a fair test of its workability could be obtained?

Mr. EDWARD F. SWIFT. One year.

Mr. MORSE. I understand you then to be in favor of its continuance in all of its present forms for one year?

Mr. EDWARD F. SWIFT. Yes; with the exception of the transfer of certain departments from one class to another, as previously stated. We think a liberal allowance should be made for reserve inventories carried from one year to another.

Mr. MORSE. Mr. Swift, from the standpoint of an accountant, I always like to see cost of a product charged to the particular department at the actual cost thereof. It has been explained to me by various ones as to the difficulty of doing that in the meat-packing industry. Do you believe if such a method could be found or ascertained, for ascertaining the exact cost—no theoretical cost, but the exact cost—do you think it would be a benefit to the industry?

Mr. EDWARD F. SWIFT. We doubt if exact cost could be obtained, but we think approximate cost could be obtained.

Mr. MORSE. But you are obtaining now the approximate cost or the cost as near as you can obtain it, as I understand it.

Mr. EDWARD F. SWIFT. Yes, and are constantly striving to perfect the same.

Mr. MORSE. But when you credit stuff at the market, you are not crediting it at cost. You are taking profit or loss whenever you credit any product at market. Theoretically that is true. No explanation can alter that.

Mr. TRAYNOR. But doesn't your question carry with it an inference that we are doing it perhaps one way when we ought to be doing it in another way?

Mr. MORSE. Oh, no. I have been very frank with you.

Mr. TRAYNOR. But the proposition led up, as I understand it, was from the suggestion that our costs might be more accurate than they are.

Mr. MORSE. Possibly they might. I don't know.

Mr. TRAYNOR. As I understand your question, if a system could be devised that would produce accurate costs, would we be glad to see that, and the answer is, "Yes." But as far as we are concerned, we are figuring costs as accurately as we know how. We have been trying for thirty years to do it better each month. We have got a system now which we think is as good as it could practically be.

Mr. CHAPLIN. It can be improved, undoubtedly.

Mr. TRAYNOR. But understand, there are about twelve or fifteen hundred elements enter into the process of figuring the cost of one steer. We try to get them as exact as we can.

Mr. CHAPLIN. It is not like some mills, that you can split them up by some chemical combine and have exact quantities of the two elements. In a steer, every brand changes. You have got to take averages.

Mr. MORSE. You see, when your books are kept the way they are, with the intercompany profits here and there and different places, it is a very hard matter for the Government to come in and check up and see just what you are doing. Not that I am assuming that you

are doing anything wrong at all, but if you have to do something you should certainly give them a right report. Hence, under the system it is hard for a man to come in here and check up. You could fool a man dreadfully as to what your profits are.

Mr. EDWARD F. SWIFT. We do not feel so disposed.

Mr. MORSE. Do not think I am insinuating that you do. I do not want you to think so. But I am just thinking of the possibilities if you did want to do so.

Mr. EDWARD F. SWIFT. Our figures are entirely open to the Government. It is no secret that the correct results of our business are shown on our books.

Mr. MORSE. Oh, yes. I do not doubt that, but I was saying that I would like to see something done if possible where some way could be ascertained from the Government's standpoint in conducting the books.

Mr. EDWARD F. SWIFT. There isn't any trouble. The only trouble I see is the point of time. If you want to go into the details, you can check the division of one department from another closely, but you can not do it in a minute.

Mr. MORSE. Of course you can't. That is the trouble.

Mr. TRAYNOR. You can not check any man's business with a volume and with the big interests that this is, unless you will take the time to check it. That is the answer.

Mr. MORSE. I think you are dead right.

Mr. TRAYNOR. It can not be checked in a half a day. It can be checked just as easy though as any other business.

Mr. EDWARD F. SWIFT. It can not be done in one afternoon.

Mr. MORSE. I think you are absolutely right. Only that I am sorry we have to try to do something in one afternoon.

Mr. TRAYNOR. It is not fair to you and it is not fair to us, and any conclusions you reach, I do not care who does it, can not be worth very much if you try to do it that quickly.

Mr. EDWARD F. SWIFT. You ought not to try to do it in one afternoon.

Mr. MORSE. Still you want to take into consideration one thing. Mr. Chase has got a very extensive line of figures that he has collected of the big industries, which if we did not have them and have an opportunity to go over those before we came here, we would never have got started straight. Mr. Chase has done an awful lot of work here.

Mr. EDWARD F. SWIFT. And we have constantly cooperated with him.

Mr. MORSE. That is what he said; that you had been perfectly willing to give him anything he asked for.

Mr. EDWARD F. SWIFT. Yes. That is a fact.

Mr. MORSE. And I know he appreciates that and I know I do.

Mr. WHIPPLE. You just made the statement, and I think it wants to be understood by the packers, that we are not here to determine whether the packers' methods of keeping books are right or whether their figures are right. We are only here to pass an opinion on the work that the Federal Trade Commission has done thus far, whether we think they are following the proper line of investigation. I think we can form a very close opinion of that by the testi-

mony that you people have given and that the other packers will give. Our investigation does not include either righting figures or claiming that they are wrong. We are not interested in that at present. We are merely rank outsiders called in to give an opinion as to the methods the companies operate on.

Mr. MORSE. Is there anything else now, gentlemen?

Mr. G. F. SWIFT, Jr. We think we have a few little things, sort of fundamental; if agreeable to you we would like to present to-morrow in just a little memorandum. It would not be long at all, along with this letter that we were going to give.

Mr. MORSE. We will be very glad to have it.

Mr. G. F. SWIFT, Jr. Make it a part of the record?

Mr. MORSE. And make it part of the record.

Mr. G. F. SWIFT, Jr. It will be concise and clear and save time and save a lot of explanation.

Mr. WHIPPLE. You may provide now that anything that you gentlemen want to submit before we finish up this record you will submit it and it will go in the record and will be bound up as part of the record.

Mr. TRAYNOR. Even subsequent to this letter?

Mr. WHIPPLE. Subsequent to this letter, but we are going away soon.

Mr. CHASE. Up until the 24th of June.

Mr. EDWARD F. SWIFT. We will try to get it in to-morrow.

Mr. WHIPPLE. Anything that you can submit we will all welcome heartily.

(Whereupon, at 5.15 p. m., the hearing was adjourned until 10 o'clock a. m., June 12, 1918.)

ARMOUR, WILSON, AND CUDAHY.

CHICAGO, ILL., *June 12, 1918*—10 a. m.

Present on behalf of the Federal Trade Commission: Stuart Chase, Esq.; Samuel W. Tator, Esq.; Perley Morse & Co., certified public accountants, New York, represented by Perley Morse and P. S. Whipple.

Present on behalf of Armour & Co.: F. Edson White, Esq., vice president; W. P. Hemphill, Esq., general auditor; and (later) J. Ogden Armour, Esq., president.

F. Edson White was called as a witness and, being examined, testified as follows:

Mr. MORSE. Mr. White, you are more or less familiar with the United States Food Administration Meat Division rules and regulations that have been in force since November 1, 1917?

Mr. WHITE. More or less.

Mr. MORSE. Have you any suggestions for amendment or change of these regulations in any way?

Mr. WHITE. Our suggestion on changing of the regulations would be the profit under article 2 and change of the classes. We think, for instance, that you now under the rulings have got some accounts in class 2 that in all fairness should be in class 3.

Mr. MORSE. Would, you mind mentioning the names of those accounts?

Mr. WHITE. Well, we particularly refer to what we call our Thirty-first Street accounts, which is a plant entirely apart, located a mile and a half from the stockyards, run by an entirely separate organization, buying but part of their product from Armour & Co., in competition in trade in which it is engaged with some of the biggest people in those lines of trade, as well as the smaller, upon whom there is no limitation. I refer particularly to what is known as the glue, curled hair, and soap accounts.

Mr. MORSE. You control this concern yourself, don't you?

Mr. WHITE. Absolutely.

Mr. MORSE. By stock ownership?

Mr. WHITE. It is part of Armour & Co.

Mr. MORSE. It is part of Armour & Co.?

Mr. WHITE. Yes.

Mr. HEMPHILL. Armour & Co., of Illinois.

Mr. MORSE. And you own 100 per cent of the stock?

Mr. WHITE. Yes.

Mr. WHIPPLE. Would you think that should apply to butterine and fertilizer?

Mr. WHITE. I think it should apply to leather and fertilizer and butterine.

Mr. HEMPHILL. Pardon me, butterine is now in class 1.

Mr. WHITE. This in general substance is the same.

Mr. HEMPHILL. But you are talking about class 2 departments.

Mr. WHITE. The mince meat department, city fat, gut string department and the pork and bean department.

Mr. MORSE. In other words, your contention is that all articles on which you have competition from the outside should be put in class 3, is that the right understanding?

Mr. WHITE. That is an argument for it, but the essential point is that it is not really a part of the beef business or packing business. It is just a separate institution. The fact we are in the glue business is only incidental to our packing house. For instance, in our glue—where is your investment sheet?

Mr. HEMPHILL. Here it is.

Mr. WHITE. We have got three and one-half million dollars invested in the glue works, and we buy from Armour & Co. less than half of the product to make the glue. The balance of it we buy all over the world: China, South Africa, and South America, and when the Europe markets are open, in Europe. It is not any part of the pork and beef business. It is distinctly a separate institution.

The soap works, we have got $5,500,000 invested in the soap plant. Our competitors are Procter & Gamble, and Colgate, and all such people as that. The soap business is only an incident to the packing house business. We buy vegetable oils in every part of the world to make soaps. You see, no animal oils go in the fats, nothing that comes from this packing house, so why limit that business, why put a restriction around the Armour Soap Works if there is not one around the biggest men in the business?

Mr. MORSE. You mean, Mr. White, that the packers are——

Mr. WHITE. Let me say further that in that soap business 76 per cent of the product we buy comes from other than Armour & Co.

Mr. HEMPHILL. In raw material.

Mr. WHITE. Raw material I refer to, of course. On the glue business, 48 per cent of last year's 1917, purchases came from outside of Armour & Co. The sandpaper works down there, part of that institution, 100 per cent of it came from outside.

Mr. MORSE. Do you think, Mr. White, that the packers or, at least, Armour & Co., would look with favor on a segregation of business, so that the packers would only conduct that portion of the business they are now conducting that pertains only to the meat industry.

Mr. WHITE. I think it would be the greatest economical mistake that has ever happened in industry.

Mr. MORSE. In other words, your by-products, so-called, reduce the cost of the meat products?

Mr. WHITE. Yes. Here is the situation. We have to be prepared in this business for volume. We have these great enormous plants that take the maximum load off the live stock market. We have, in order to merchandise that load, this great distributive facility of 400 branch houses. We could not run those branch houses on just pork and beef.

Mr. MORSE. Pork and beef and sheep and lamb?

Mr. WHITE. Meat products.

Mr. MORSE. Yes; meat products.

Mr. WHITE. We could not give the facilities, we could not afford to do it. To-day we have to have motor trucks, we have to have plenty of help about the plant; we have to give prompt service.

Mr. MORSE. Yes; that is all understood.

Mr. WHITE. It is an economic development, this business, and when we start with this volume of live stock and we start to talk about the segregation of the thing——

Mr. MORSE. I think we agree on that, I see that.

Mr. WHITE. It is economically wrong.

Mr. MORSE. I see that. I wanted to get your opinion of it.

Mr. WHITE. Yes.

Mr. MORSE. You take in this by-product business, a great deal of it, I suppose, is cumulative from time to time, and you can not use it immediately, is not that true?

Mr. WHITE. We have had some experiences here in the 25 years I have been around this plant that we have accumulated—for instance, I can remember back how we came to go into the tanning business. It was in one of the panics, 1895, I think. You could not sell a hide. You could not get anybody to buy hides. The last known sale was at 14 cents a pound. We accumulated about 300,000 hides in our cellars. This is 20 years ago. Those 300,000 hides then would be the equivalent of half a million to-day.

Mr. MORSE. That has nothing to do with what the packers have been accused of now, hoarding hides.

Mr. WHITE. I will take care of that later. This is the same thing, but that is another story. To continue, you could not sell those hides. Nobody could borrow money in the 1895 panic, if I remember. The tanning business is a long turn, you only turn your money about once a year or once and a quarter in the year. Is that about it?

Mr. HEMPHILL. Yes.

Mr. WHITE. We did not know what to do. Finally one of the big tanners in the country came into the city office and in talking to our hide man made him a proposition, saying "I will buy 150,000 hides from you; I will give you 7 cents a pound and you give me six months to pay for them." This man reported that to Mr. Armour, and Mr. Armour said, "Stop talking to him. Go out and find a tannery that will tan these hides for our account. We are through trying to sell hides." Then we went to a tanner who could not get money, or who did not have the nerve enough if they had the money in the bank to buy hides, and we put our own hides in the tanners' plants and paid them so much a pound for tanning the hides. That was what started it. The bulk of the business was so big on the whole that we had to find a way out, and the only way out was to go through the tanyards.

Mr. MORSE. I can appreciate that very much.

Mr. WHITE. We come in here on the fall on meat products, and we run into the maximum kill of cattle and hogs. We kill more cattle in October and November than in any other two months of the year. We kill more hogs in November, December, and January than in any other three months of the year. There is so much kill and so much less demand that we have got to put that meat away. The same as regards the sheep and the offal——

Mr. MORSE. That is put away at the same time?

Mr. WHITE. It is put away until such time as the market can take it.

Mr. MORSE. Until such time as the market can take it, as the cycle permits a market?

Mr. WHITE. Permits a market, yes.

Mr. MORSE. And you can get rid of your stuff?

Mr. WHITE. Yes.

Mr. MORSE. And so you have got to hold the by-products for a long time.

Mr. WHITE. We never hold products through a season into a new season if we can help it. I mean we would not, for instance, carry calf sweetbreads from June, 1916, into July, 1918.

Mr. MORSE. I do not mean that. I mean by-products, and by by-products I would say tallow, hides, hoofs, horns, bones, and things of that kind.

Mr. WHITE. Yes.

Mr. MORSE. When you get those from killing, as I understand it, you accumulate them unless you dispose of them right away.

Mr. WHITE. Yes.

Mr. MORSE. And sometimes you have to keep them a long time, unless you can use them up yourself or sell them?

Mr. WHITE. Yes. We frequently carried a million or a million and a half dollars worth of wool, because there was no market for it. The kind of wool the packer makes is something that is affected by the style. The style of cloth they are making makes a very active demand on pulled wool, which is the kind the packers make. That makes a market every 30 days. That is, last month's this month, but we get into the time when we have to carry June and July wool into April and May of the next year.

Mr. MORSE. But is not there quite a demand for tallows, for instance? You do not have to carry those so long?

Mr. WHITE. No. Tallow to-day is very active, because they want the tallow for glycerin.

Mr. MORSE. Has it always been that way?

Mr. WHITE. No. Sometimes we have had three or four months' production of tallow piled up here and we did not know what to do with it.

Mr. MORSE. I suppose that is true as regards other by-products?

Mr. WHITE. Yes. For instance, pig fats; we have got 2,000,000 pounds of pig fat in the cooler.

Come on in, Mr. Armour.

(Mr. J. Ogden Armour here entered the room.)

Mr. WHITE. Mr. Armour, this is Mr. Morse.

Mr. ARMOUR. Glad to see you, Mr. Morse. I just came up to show you what I look like.

Mr. MORSE. We are just trying to get an education in the beef industry, Mr. Armour.

Mr. ARMOUR. We want to tell you everything we know, because we think the more you know the better it will be for us.

Mr. MORSE. I appreciate that. This is a great study. You may proceed, Mr. White.

Mr. WHITE. Your last point was carrying great quantities of stuff.

Mr. MORSE. Yes.

Mr. WHITE. Just now we are in a market with our pork meat of uncertainty. The Allies, the British purchasing buyer has come along here and bought the choice cuts out of the hogs, and has left the undesirable cuts in our cellars. We have got 150,000,000 pounds of product of that kind, just pork products, on which the market could go off 4 or 5 cents a pound between now and the time it would be sold. Now, it is a kind of product that you can not go out and force a sale on. The great part of it has to wait until the southern cotton-picking time starts to create a demand for it. I refer to the heavy side meats, which the Allies, Belgians or French, have not bought. We have got millions of pounds of that product.

Mr. MORSE. I see where that is possible. Now, Mr. White, when you are carrying large quantities of stuff like that, and you are making up the inventory to figure profits and loss, how do you value that product, these by-products, or this pork you have been talking about, or these hides, or things of that kind?

Mr. WHITE. When we take the hide off to-day we credit our beef account——

Mr. MORSE. With what value?

Mr. WHITE. With the value as near the market as we know the market.

Mr. MORSE. As near the market as you know it?

Mr. WHITE. Yes.

Mr. MORSE. But you do not always know the market?

Mr. WHITE. No. I will give you a point. In January, February, and March of this year—we were selling hides in December at 35 cents for natives, and branded hides, I think, were selling around 28 cents. Now, the hides going to the cellar at that time were credited to the beef account at the cellar expense off of the market. We know what the hide shrinks and we know what it costs to salt it and put it out. I do not know what the margin is. Maybe you do.

Mr. ARMOUR. Fifty cents a hide.

Mr. WHITE. It would be about a cent a pound.

Mr. MORSE. The fact is right there your market price is uncertain?

Mr. WHITE. Very uncertain. We put those hides away; the December, January, and February hides just piled up. There was no trade. The reason there was not any trade was on account of conditions regarding the leather situation in Washington. Everybody was waiting to see what the Quartermaster's Department was going to do. But we keep on figuring those hides that way. Now, when we closed our books—in the closing after January we inventoried our hides at what was then the market, which was 2 or 3 cents a pound lower, and we took a loss on our hide account of $700,000. The subsequent closing to that, there was still no market for hides, and those hides that had been selling for 35 cents as natives sold down to 24 cents, and hides selling at 28 or 29 cents sold as low as 16 cents, with the packers carrying that load of hides, and in the subsequent closing we took another loss of about $800,000. That loss appears on the account here under hides, but it is a dressed-beef loss.

Mr. MORSE. In other words, you have and will, through necessity, take either a profit or a loss in your departmental accounts?

Mr. WHITE. Yes; always.

Mr. MORSE. It is either a profit or loss one way or the other, and you are never certain of the market.

Mr. WHITE. Never certain of the market on your by-products.

Mr. MORSE. Yes.

Mr. WHITE. To-day, by reason of the fact that the Hide and Leather Control Board have placed a maximum price on hides and by reason of the fact the tanners of the country are overloaded with quartermasters' orders for leather, we know what the prices of hides are. We have sold all our hides for the next month at the price that has been set. Now, there won't be any fluctuation in the hide account or the beef account for that reason.

Mr. MORSE. You think it is almost an impossibility to arrive at the cost in the packing industry on account of the necessity, as you explained it, of taking an interdepartmental profit or loss as you go along?

Mr. WHITE. You can arrive at the to-day's value.

Mr. MORSE. That is not absolute, is it, because you do not know the market?

Mr. WHITE. But you can not make it absolute on something that may not sell for 30 days, 90 days, or 6 months.

Mr. MORSE. Or a year.

Mr. WHITE. Or a year. But in the transfer from the main values, cattle and hogs and sheep, of the by-products, the only way we can run our business with any intelligence is to transfer that product as near the then market as our figures can show.

Mr. MORSE. How do you determine as near the then market in making up these charges, these interdepartmental charges; how do you arrive at that?

Mr. WHITE. To-day's sales on hides are, we will say, at 35 cents for native steers. There is no question about that. That is the market. You can sell all the hides you can get, according to what your experience has brought you.

Mr. MORSE. True, but I did not want some unfamiliar mind to read this record and misunderstand it.

Mr. ARMOUR. Of course, that would depend. You asked the question if it would be possible to determine the cost. It would depend whether there was a ready sale for the by-products. At one time of the year there might be a ready sale and another time of the year the market might be down and you have to hold it. That would be the answer. So the prices you thought you could get for your goods, if there was a ready sale and you could sell it reasonably soon, you could, but if you had to hold it there would always be the same doubt whether you could get what you thought you could the day you took it off, or have to take a loss on it. Is that correct, Mr. White?

Mr. WHITE. Yes. The same thing is true here, Mr. Morse, on the regular line of stuff. How are you going to determine cost on a ham. We have to figure hams against the hog, on what is the cash market for a green piece of meat. But if all the packers, Armour, Swift, Morris, and Wilson, were to throw all their green hams on the market, a total day's product, there would not be any market for such an amount. So all these uncertainties of values create the necessity for some kind of reserve to protect yourself. You see what happens.

Mr. MORSE. That is just ordinary business?

Mr. WHITE. As I outlined on the hides, we would have sold our hides any one day in the first three months of this year if we could have got a buyer for them, but every day we did not sell them the price was less, and finally we had a million and a half dollar loss against our hide account.

Mr. ARMOUR. We put down as between departments what we figure the market is. We figure that market according to the last sale. That is the way anybody would figure, according to about how the goods were selling last. If you can sell them readily, there is no question about arriving at the cost, but if you have to hold them for some reason we have not any control over, that is the sale and demand, we hold them, but they may go up or they may go down. Mr. White does not mean to say they always go down, at all.

Mr. MORSE. You have got a profit or loss right there.

Mr. ARMOUR. Yes. It does not always go down at all. It may go up and we have a profit. But there is that uncertainty that no one can tell. You could not tell. Nobody could tell.

Mr. MORSE. I can appreciate that.

Mr. ARMOUR. It is simply like we ship 500 pounds of pork loins to New York or any town down there. We think we might get 30 cents for it, or 28 cents for it, but it might strike a warm day, or we might get 31 cents for it. It either goes up or goes down, so we do not control that. It is a physical impossibility for anybody to control it.

I am very glad to have seen you. I wanted to see what you looked like. I am glad you have come, and it is unnecessary to say our plant is open to you. Anything you do not understand, just ask us, because we are better off if we can have you understand everything about the packing business. There are no secrets about it. There is not anything strange about it at all, but there are conditions an outsider would not understand, naturally, immediately, because it is a business that is different from any other business. You can

put a price on any other thing—steel rails or iron—and it stays there. But here is something that deteriorates; sometimes we get less than we figure for it, and sometimes we get more. I am glad to have seen you.

Mr. MORSE. I am glad to have seen you, Mr. Armour.

Mr. ARMOUR. Good day, gentlemen.

(Mr. Armour here left the room.)

Mr. MORSE. Now, Mr. White, in view of what you said, do you think that these regulations, having only been in force from November 1, 1917, to date, that we have got a sufficient period of time for a fair test as to the workability of these regulations, in view of the fact, as you have suggested, that there are hold-over inventories, stuff that you could not use, which you have taken up at a more or less arbitrary price, the best amount you could form in your judgment, which have been taken over from time to time in these inventories, so that profits or losses could not be considered with any degree of accuracy for such a limited time; is that your opinion?

Mr. WHITE. That is exactly my opinion. In my 25 years' experience in this business I have never seen two years of it analyzed the same.

Mr. MORSE. That is on account of the hold-over part——

Mr. WHITE. It is a seasonal business.

Mr. MORSE (continuing). Is it not?

Mr. WHITE. It is hold over. There are so many things that enter into the final profit and loss of this business that you can not on a six months' application of rules come to a conclusion. I do not care what conclusion you come to to-day, or any of your investigators, I will guarantee in six months from now they will change them themselves. You simply can not do it, Mr. Morse.

I would say this, however, in my argument about the elimination of these accounts. The reason they were put in there, I assume, was in order to get a balance on them, to get a viewpoint of them to see how they were handled. I assume that was the reason; because I can not assume there was any good reason for limitation of a business, pork and beanbusiness, the mincemeat business, the animal-limited, and I refer to the leather, fertilizer, soap and the glue business, pork and bean business, the mincemeat business, the animal-oil business, and the city-fat business.

Mr. MORSE. But you contend the business has to be viewed as a whole and there can not be a separation of the industry, that is, the meat-packing business and the by-products, for economical reasons?

Mr. WHITE. That is what I was going to answer you. For economic reasons it would be impracticable to do it. It would be a willful waste of effort and of efficiency.

Mr. MORSE. Did you desire to say something, Mr. Hemphill?

Mr. HEMPHILL. I was going to ask if you meant a fair separation of profits as between those two classes, class 1 and 2.

Mr. MORSE. I did not mean that at the time I was talking—

Mr. WHITE. You were talking of the business?

Mr. MORSE. I was talking of the business from an economical standpoint.

Now, Mr. White, according to these regulations, it is necessary to divide your capital invested into three classes. Have you found any difficulty in making that division of capital?

Mr. WHITE. No.

Mr. HEMPHILL. No, sir; none at all.

Mr. MORSE. Does that division show your specific accounts on your books?

Mr. WHITE. I think not. Mr Hemphill can answer that.

Mr. HEMPHILL. You mean between classes? In some cases yes, and in other cases we have had to divide the capital between the classes on the basis we thought was fair.

Mr. MORSE. In other words, as far as your books are concerned, you have no record of this division. It is simply with you a statistical record that you worked out to the best of your ability?

Mr. HEMPHILL. No, sir. For instance, with your leather business it is absolutely distinct in every way. The leather tanneries are separate and apart from the packing business.

Mr. MORSE. But you could not do that in some instances, where you are mixed up altogether?

Mr. HEMPHILL. We do in most cases. For instance, the fertilizer and curled hair, and, as Mr. White speaks of, the Thirty-first Street industry, a mile and a half away from here, with their own executive officers and their own accounting force, and entirely separate from the Armour & Co. business here.

Mr. WHITE. The only thing we do for them is to furnish them money to do business on.

Mr. HEMPHILL. And charge them for it.

Mr. WHITE. That is only a matter of banking.

Mr. MORSE. Could I, as a rank outsider, come into your books without any steering or coaching from you and could I determine your investment in these various classes?

Mr. HEMPHILL. Very easily.

Mr. MORSE. I could do it with a little study.

Mr. HEMPHILL. With a little study it would not be hard at all. Such divisions as we have had to make have been along logical lines, and in most cases submitted to Mr. Durand and Mr. White, and they saw the feasibility and approved it.

Mr. WHITE. I do not think—before we get off this point—I do not think there is any question in your investigators' minds about the segregation of these various departments I have talked about. We have transferred the product at the transfer value; that is as near the market as possible. Therefore, the class 1 from which these by-products come gets the true accounting value of that product. So that that would be the only suspicion which would be about those accounts from a rank outsider; the fact that they get some benefit from the major business like the live cattle, by transfer to the glue account, and bones at some arbitrary fixed price that might not seem to be fair, but I think we satisfied Mr. Chase in his accounts that that transfer basis of ours is all it should be, so then, to our notion, we have satisfied the Food Administration and the Federal trade investigators up to date on our segregation and on our method of segregation.

Mr. MORSE. I will say this, Mr. White, as a rank outsider here, what would occur to my mind is the value or the valuation of these assets, but I want to take that up with you a little later. I want to ask you now if you are familiar with the Canadian rules and regulations. The basis there, I presume you know, is entirely different from the United States regulations.

Mr. HEMPHILL. I do not believe you have seen these, Mr. White. I have one here.

Mr. MORSE. I suppose Mr. Hemphill answers that question.

Mr. HEMPHILL. I am familiar with them to a certain degree.

Mr. MORSE. Do you think the Canadian regulations, if applied here in the United States, would be more workable or more equitable than the regulations we now have?

Mr. HEMPHILL. I have not given a great deal of attention to that, for the simple reason that our Canadian business is not of sufficient importance to justify it. With us the Canadian food regulations merely means making out reports, because we have not made any money there for quite a while.

Mr. WHITE. We have just sent a committee to Canada about two weeks ago to answer whether or not we would close up that plant.

Mr. MORSE. The regulations are in force?

Mr. HEMPHILL. The regulations are in force, but the forms have not been sent out. As I say, all it means to us is merely making up the reports, so I have not sent the regulations down to Mr. White or any of our executives here, because it did not interest us. We have not made any money on it.

Mr. WHITE. The business in Canada is on a very unsatisfactory basis. The pork industry over there is being run at a frightful loss to-day, and what will be done I don't know, but so far as the regulations on the business are concerned we have not paid very much attention to them. We have not got to the place where the limitations of the Government were of interest.

Mr. CHASE. Is Hamilton your only plant there?

Mr. WHITE. That is all; yes.

Mr. MORSE. Have you in mind, Mr. White, any other regulation which you think would be more equitable or effective than the one which is now in force? Have you any suggestions you want to make? You see we are searching for ideas.

Mr. WHITE. I think I have no particular suggestion. I think with the suggested changes in the present regulation, which is merely the application of what department of that article 2 the various departments are put under, I think with that the rules and regulations are as fair as we could hope for.

Mr. MORSE. I notice that you close——

Mr. WHITE. Pardon me just a minute. You have now, as I understand it, the Agricultural Department, which has taken over the fertilizer business, working on it, and the War Industries Board have a committee at work with the tanners, to make a limitation on the tanning industry, so it will seem that those two accounts will take care of themselves in that direction.

Mr. HEMPHILL. Pardon me. While the fertilizing department is working under direction of the Bureau of Agriculture as far as prices are concerned, the Food Administration or the Federal Trade Commission still say that they regard the fertilizer business as being in class 2. That seemed rather——

Mr. WHITE. The fertilizer business, if you get into that before you get away from this general packing industry, you will find how little in the fertilizer business the packing industry is a part.

Mr. HEMPHILL. Less than 20 per cent of the raw materials.

Mr. WHITE. We buy pyrites in Spain; we buy nitrates in Chile; we buy phosphate rock in Florida, and generally all that we use out of the packing house is the animal fertilizer, which, as Mr. Hemphill has stated, is less than 20 per cent of the raw material that goes into our fertilizer business.

Mr. MORSE. Right there I want to ask you a question that is entirely off the subject, but is interesting to me from an economic standpoint. How many governmental departments are investigating or supervising or have something to do with the packing industry at the present time?

Mr. WHITE. Of course the main department with which we are in business all the time is the Bureau of Animal Industry, part of Secretary Houston's department.

Mr. MORSE. Yes.

Mr. WHITE. Then the food industry, Food Administration. It is not fair just to stop by saying the Food Administration, because it runs into many different channels.

Mr. MORSE. I want to learn the different governmental departments that are investigating or have some supervision over the different phases of your business right now.

Mr. WHITE. There is the Food Administration, and I will say we must be making on an average of—what is it—300 reports a month for the Food Administration or 500?

Mr. HEMPHILL. I don't know just how many, Mr. White. A great many.

Mr. WHITE. We must be making 2,000 reports a month to the Food Administration on our business, from all our branches of it.

Mr. MORSE. I see. What other departments?

Mr. WHITE. Then the Treasury Department, by reason of the butterine and oleo.

Mr. HEMPHILL. And the Federal Trade Commission.

Mr. WHITE. And the Federal Trade Commission. That is all at present.

Mr. CHASE. Is your lard compound under the Food Administration?

Mr. WHITE. I think so. Then, besides the Bureau of Animal Industry branch and the Agricultural Department, we have the general supervision of the Department of Agriculture.

Mr. MORSE. That is not in this investigation. It is just a matter of curiosity.

Mr. HEMPHILL. Mr. Chase asked if the lard compound was under the Food Administration. As far as the regulation of profits is concerned in classes 1, 2, and 3, it is in class 3.

Mr. WHITE. Yes.

Mr. HEMPHILL. Lard compounds.

Mr. WHITE. He knows that, I guess.

Mr. CHASE. No; I did not mean that.

Mr. MORSE. Mr. White, I notice in the rules and regulations that the operation of the stockyards is in class 3. Don't you think that should be put in class 1?

Mr. WHITE. I do not see why it has any bearing on class 1.

Mr. MORSE. The packers own the stockyards, don't they?

Mr. WHITE. No.

Mr. MORSE. Control them, through stock ownership. That is, some one or two or three. There is an interest there.

Mr. WHITE. As far as our company is concerned, we do not control any stockyards.

Mr. HEMPHILL. Two small yards, Jacksonville and Hamilton.

Mr. WHITE. We do not call them plants.

Mr. MORSE. Maybe I used the word "control" wrongly. I meant you are interested in the stockyards; financially interested.

Mr. WHITE. Here is the history of the stockyards. If you will get hold of some of the old-timers around the stockyards they will tell you that a stockyard never amounted to anything anywhere in the country until it got a big packer into that yard.

The Denver stockyard was kicking around here for 15 years; did not have any market there. A man would get there with a train of cattle, and there would be nobody to buy it. He would have to feed them and water them and sell a few odd cattle to the trade; that is, the local butchers, and then go over to the Missouri River. If he had to go to Kansas City 20 years ago, there would be no trade to take care of his cattle, and he would come to Chicago. Now, the big packer has gone into those yards and developed a market, created a market. Until the big packer got into the stockyards it did not amount to anything.

Mr. MORSE. The big packers are in the stockyards at the present time.

Mr. WHITE. They own stock in the stockyards. Mr. Armour owns stock in the Omaha stockyards. Armour & Co. has no interest in it. In Kansas City, Mr. Armour does not own anything or Armour & Co. does not own anything. I think the Fort Worth yards, Armour and Swift own the majority of the stock of the company, but there are other stockholders there. I can not see why the stockyards is a part of the beef and pork business.

Mr. MORSE. I just wanted to get your opinion on it.

Mr. White, I have before me the balance sheet of Armour & Co. as printed by you in your report to shareholders. I find on that you have total assets of—I understand you have fixed assets in thousands of dollars, 103,802. That is in thousands of dollars.

Mr. WHITE. That is millions.

Mr. MORSE. Millions, yes.

Mr. WHITE. Yes.

Mr. MORSE. Does that correctly represent the value of those assets? Mind you, I understand that those figures are your book value, but is the value of those assets that figure or are they more or less?

Mr. WHITE. It seems to me the answer to that question would be that it represents a book value but not a replacement value. For instance, I think it has been almost 15 years since we had an appraisal of our properties.

Mr. MORSE. These values, then, represent the value 15 years ago.

Mr. WHITE. When was our appraisal made?

Mr. HEMPHILL. I think about 11 or 12 years ago.

Mr. WHITE. Eleven or twelve years ago.

Mr. HEMPHILL. 1906, I think.

Mr. WHITE. Here is the point on that: If we put on a new building, as we are doing all the time, there is one feature about this business

that so few people understand—the need for replacement conditions. For instance, the history of Armour & Co. shows they have never paid more than $2,000,000 dividends in any one year since they have paid dividends, but all the earnings over that have gone back to the property. If you have studied our balance sheet or record, you have found that out. When you asked me if that $103,000,000 is a fair value, I would say, dating back to the appraisal of the property 11 years ago and then adding the reconstruction period since then, that is the value, but it does not represent any accrement in value like you would get on an appraisal to-day.

Mr. HEMPHILL. It is the appraisal value plus the cost of new construction since.

Mr. WHITE. The appraisal value 11 years ago plus the cost of new construction since.

Mr. MORSE. In other words, that represents the appraisal value of your land, real estate, and machinery 11 years ago plus any additions, betterments, replacements since that time?

Mr. WHITE. Yes.

Mr. MORSE. Is that right?

Mr. WHITE. Yes.

Mr. HEMPHILL. Except the replacements——

Mr. MORSE. I presume, however, you have set up or charged off a reserve for depreciation?

Mr. HEMPHILL. Yes.

Mr. WHITE. We have a regular policy with respect to taking care of our depreciation. What is the percentage?

Mr. HEMPHILL. Five per cent.

Mr. MORSE. May I ask, Mr. Hemphill, then, what is your policy as to depreciation on buildings and machinery?

Mr. HEMPHILL. At the present time we charge off 5 per cent on buildings and machinery.

Mr. MORSE. Do you credit that right against the account?

Mr. HEMPHILL. We credit it to reserve or depreciation and against that reserve or depreciation we charge renewals and replacements. I think that is standard. I may say that our standard instructions were written up some seven years ago, standard instructions to all our packing plants in the disposition of their repairs and all expenditures for repairs, replacements, and improvements, and that was adopted by the Internal Revenue Department at Washington as being standard. I think it was found quite satisfactory.

Mr. WHIPPLE. Have you got a copy of those?

Mr. HEMPHILL. Yes.

Mr. WHIPPLE. Can you get us a copy?

Mr. HEMPHILL. Yes.

Mr. MORSE. At the time this appraisal was made, what values were used by the appraisers? Replacement values at that time or cost values. Do you remember, Mr. White?

Mr. HEMPHILL. I am not familiar with that.

Mr. WHITE. The American Appraisal Co. made the appraisal with the assistance of Price, Waterhouse & Co.

Mr. MORSE. And you have those reports now?

Mr. WHITE. Yes, they are available. We had that appraisal made for the purpose of a bond issue.

Mr. HEMPHILL. We can give you that later if you think that is necessary.

Mr. MORSE. In your opinion then, these assets are correct, that is the valuation of them is corect at the present time?

Mr. WHITE. Yes.

Mr. MORSE. And there is no reason why they should be written up or down.

Mr. WHITE. The only thing is, in fairness to those figures, in view of the fact that that is 11 years since we have had the appraisal on our property, and our property has increased, has more than doubled in 11 years—I mean our net property values have, our net assets have, for instance—that I would think that if we wanted to arrive at the true and proper investment it would be fair to have a new appraisal sometimes. We have not felt we wanted to go to the expense of it. It is a big job, and it would cost a couple of hundred thousand dollars probably, and we have been sort of satisfied to go on with our own business among ourselves as it is.

Mr. MORSE. So you do not at the present time contemplate making any request for a revaluation?

Mr. WHITE. We have discussed that point, Mr. Morse, simply in fairness to our business. If this business is to be held in line by limitations and regulations, on which the judgment is arrived at from our competitors' business as well as our own, in fairness to us, we ought to be on the same basis, we all should be on the same basis. In other words, in order to arrive at what we should earn on a 9 per cent limitation—if Swift and Morris and Wilson are to have a new valuation as of date, it is hardly fair to take Armour's valuation as of 11 years ago.

Mr. MORSE. I am glad to hear that. I think you all ought to be on the same basis. Of course, that is my own personal opinion.

Mr. WHITE. Of course, in relation to this concern, by the very nature of it, it is an Armour family affair. It has been a close corporation.

Mr. MORSE. By the way, may I ask you for a little information there? Do Armours own all of the stock, the whole company?

Mr. WHITE. Yes; substantially so.

Mr. MORSE. It is all right in the family.

Mr. WHITE. Substantially so; yes, sir. I mean there has been no reason by reason of the nature of the company to do it. We have not been floating stock; we have not had to sell our assets or put them on the market, so that Mr. Armour has been sort of self-satisfied to go on the way his business was, and very reluctantly put out his first $50,000,000 11 years ago in bonds. Business got so big he had to do it.

Mr. MORSE. What decision did you come to about this revaluation; did you propose to let that drop?

Mr. WHITE. It is under discussion now.

Mr. MORSE. It is under discussion now and I understand there has been no decision?

Mr. WHITE. There has been no decision. We may ask the Federal Trade or the Food Administration for the privilege of revaluation on our property, the privilege of writing it up. We do not have to

ask them for the privilege of revaluing. We may then revalue and then ask them to change our books according to the basis arrived at.

Mr. MORSE. What basis do you think should be used under your belief in revaluing your property? Replacement, 1918, or what date; 1914, or cost, construction?

Mr. WHITE. The answer to that would properly be affected by the limitations made. For instance——

Mr. MORSE. What do you mean by limitations?

Mr. WHITE. I mean, for instance, if the ruling would come to 9 per cent as the limit on which you can figure profit, 9 per cent of your capital invested, and there is no chance in the world of ever getting any more than that, certainly there is not a chance in the world but what we would want that figured on replacements as of date. If we have a fire here, burn down a million-dollar house, it is carried at a million dollars, but it would cost us a million and a half to put it back again. If we are going to limit the earnings of the business permanently or for any protracted period—we will assume it is for the period of the war—we would certainly wish it to be the replacement as of the date that limitation went into effect.

Mr. MORSE. You mentioned a while ago regarding the issue of bonds. Do I understand you are to get out a new issue of bonds?

Mr. WHITE. We are at present working with the bankers on an issue of $60,000,000.

Mr. MORSE. What interest are those bonds to bear?

Mr. WHITE. Six per cent.

Mr. MORSE. What is the security—a general mortgage against the entire business?

Mr. WHITE. Yes.

Mr. MORSE. Have you arranged yet as to the flotation price of the bonds with your bankers?

Mr. WHITE. I would rather not discuss that. If you want light on that and will interview Mr. Croll, he will give you all the data on it. I could just as well do it, but it is sort of in his province to handle those things.

Mr. MORSE. Just for the purpose of discussion, I might say I have heard there is an arrangement to be made whereby you would receive net for those bonds about 92. Is that more or less correct?

Mr. WHITE. I understand it is more than that.

Mr. MORSE. You will get more than that?

Mr. WHITE. Yes.

Mr. MORSE. How much more?

Mr. WHITE. I will answer you again that I would rather you ask Mr. Croll or Mr. Dunham.

Mr. MORSE. Who are they?

Mr. WHITE. They are the financial executives of the business.

Mr. MORSE. I note in these regulations here on page 7, under the item of interest it provides that—

> Any excess payment of interest on bonds, notes, bills or accounts payable above the rate of 5 per cent per annum may be charged to operating expense and said excess to be computed on the basis of the aggregate of such indebtedness of all kinds and aggregate interest thereon.

Is it your interpretation of this paragraph that I have just read that in this bond issue practically 1 per cent could be charged to operating expense?

Mr. WHITE. I would asume so.

Mr. MORSE. You would assume that was true?

Mr. WHITE. Yes. First, the 5 per cent was arrived at as being a fair average of what the business had done to the date on which the regulation was made, and we were in a period of war, with the uncertainty of interest rates, and the point was made we can not tell what we are going to be required to pay for money, and it would hardly be fair that we would have to borrow money to conduct a business with and not get a return on the money beyond what we have to pay for it. We go out and borrow—our statements show we are extremely heavy borrowers, and within the last month you could not get money at less than 7 per cent. Now, we are limited to 5 per cent or to 9 per cent on our capital and money invested, and paying 7 per cent for part of it we are not getting very much to run on, in this highly speculative business.

Mr. MORSE. Assume for the sake of argument you are getting net 92 for those bonds.

Mr. WHITE. I wish you would not interpret me at all on the bond issue.

Mr. MORSE. You can put that on record if you want. For the sake argument say 96. It does not make any difference.

Mr. WHITE. Yes.

Mr. MORSE. Suppose you were getting say, for the sake of the argument, 96 for these bonds. Then there is a difference there of some 4 per cent between that and par. Do you propose to charge that 4 per cent to operation, operating expenses?

Mr. HEMPHILL. I think the proper method in that case would be to amortize it.

Mr. WHITE. You see this bond issue is sold on the basis of a 7 per cent return on par for the preferred stock. It is a convertible bond in 7 per cent preferred stock. Whatever you have to sell it for you have to sell it on that basis; whatever the bank figures. It is on the basis of five-year notes.

Mr. MORSE. In that case let me ask you a question there. This 4 per cent you would amortize that, and I presume you would take a certain portion of it up in operating expense, say, periodically, yearly, or some way.

Mr. WHITE. That would be the fair way to do it.

Mr. MORSE. You would take that up in operating expense?

Mr. WHITE. That would be the fair way to do it.

Mr. MORSE. And that would be charged to cost of goods sold.

Mr. WHITE. Yes. We have to pay that much to get this money. It is just like we have to pay a little bit more to get a certain box to ship pork loins. It is a condition of the money market.

Mr. MORSE. In other words, you pay for that money. These bonds net you 96, and you have got to pay something to the holders of this security. That money costs you 4 per cent.

Mr. WHITE. Yes.

Mr. MORSE. But in the meantime that money costs you the 6 per cent.

Mr. WHITE. But we would have to cover that 4 points over the period of the bonds. We would not try to do that in one swipe.

Mr. MORSE. I understand. You take a certain amount of that periodically and you charge it off.

Mr. WHITE. Amortize it.
Mr. MORSE. And you charge to that your cost of production?
Mr. WHITE. Yes.
Mr. MORSE. I believe there is a provision in these bonds that they can be converted into 7 per cent preferred stock. According to this regulation I read, "All interest paid on bonds, bills, accounts payable above the rate of 5 per cent can be charged to operating expense," hence would you expect to charge 2 per cent, or the difference between 5 per cent and 7 per cent, the latter amount being the interest on the preferred stock, to cost of production or to production?
Mr. HEMPHILL. I do not think that applies.
Mr. WHITE. I do not think that would apply——
Mr. CHASE. You would have to get a special ruling on that.
Mr. MORSE. I wanted to get his idea as to it, that is all.
Mr. CHASE. I see.
Mr. MORSE. What is your idea of that, Mr. White?
Mr. WHITE. I have not given the matter any thought, but it seems to me it is creating something different when you create a preferred stock.
Mr. MORSE. It depends, in my mind, on the nature of the security. If it is a straight out and out preferred stock, I do not think this clause would apply, but it is more in the nature of a note of some kind.
Mr. WHITE. But until it is a preferred stock it is in the nature of bills payable.
Mr. CHASE. Absolutely.
Mr. WHITE. So it would have to be treated just as borrowed money, but on the conversion of it I think we would have to ask for a new ruling on the question.
Mr. MORSE. You think you would?
Mr. WHITE. I would say so.
Mr. MORSE. You see at the present time, as far as we are concerned, we are entirely unfamiliar with what the provisions of what this proposed preferred stock are.
Mr. WHITE. That only happened yesterday. You would not be familiar with it. I myself am not entirely familiar with it, and can not discuss it intelligently with you.
Mr. MORSE. What have you paid on the average for borrowed money during 1918, or I should say from November 1, 1917, to date? What is the average you paid for borrowed money?
Mr. HEMPHILL. I will get that for you.
Mr. WHITE. Just leave that answer open. We will give you the actual figures, because we figure it every period in closing.
Mr. MORSE. You think it is 6 per cent?
Mr. HEMPHILL. It won't miss it very far.
Mr. WHITE. It is over, I should say.
Mr. MORSE. You think it is over 6?
Mr. HEMPHILL. Possibly our bonds keep it down to 6.
Mr. TATOR. The bonds are 4½ now.
Mr. WHITE. There are 50,000,000 4½ per cent bonds out, you know, and that would keep the rate down.
Mr. TATOR. Did you see this morning's paper? You people are credited with going to issue 300,000,000 of common and preferred stock.

Mr. WHITE. That is good credit, is it not?
Mr. TATOR. Yes; I was just wondering if Mr. Morse had seen that—three hundred millions.
Mr. WHITE. That would be some money, wouldn't it?
Mr. MORSE. Have you got that, Mr. Hemphill?
Mr. HEMPHILL. I have not that figured now. It is throwing three periods together, you understand.
Mr. MORSE. For the sake of argument, we will assume that you have paid an average of 6½ per cent. Do you think that that would be far out?
Mr. HEMPHILL. A little high.
Mr. MORSE. We can, of course, correct that after. Under this provision which I have just read you believe that you are entitled to 1½ per cent charge against operating?
Mr. WHITE. Undoubtedly.
Mr. MORSE. Then you have so taken it?
Mr. WHITE. We have.
Mr. HEMPHILL. Yes.
Mr. MORSE. I beg your pardon, Mr. White, for asking this question. I was a little curious. Mr. Tator has put this in my mind. Is there anything in this newspaper story he spoke of about the increase in capital in issuing that——
Mr. TATOR. It is in your Tribune that you have there. I presume you have it there.
Mr. WHITE [getting paper]. Mr. Armour for a long time has been figuring on capitalizing his business, on doing something with it other than under the present plan, which is simply $100,000,000 worth of common stock, and of which he owns individually about 80 per cent. This newspaper story is that probably somebody has come around and talked—I do not think there is any definite plan.
Mr. MORSE. A reorganization has been discussed, then?
Mr. WHITE. We have discussed it for 10 years in this business. It comes up periodically.
Mr. MORSE. How much common stock do you propose to issue under your new plan?
Mr. WHITE. We have not discussed that.
Mr. MORSE. It is not decided?
Mr. WHITE. It is not decided.
Mr. MORSE. Have you got a preferred plan there, too?
Mr. WHITE. This new $60,000,000 bond issue, convertible bonds into 7 per cent preferred, is as far as the matter has gone.
Mr. MORSE. That is as far as the matter has gone definitely?
Mr. WHITE. So far; yes.
Mr. MORSE. Has the matter of the common stock gone that far?
Mr. WHITE. It has not been discussed at all.
Mr. MORSE. It has not been discussed at all?
Mr. WHITE. No.
Mr. MORSE. Is it your wish that this bond issue be taken up generally by the public?
Mr. WHITE. The entire issue has been sold to banks to be resold to the public.
Mr. MORSE. It has been sold to banks to be resold to the public?
Mr. WHITE. Yes.

Mr. MORSE. Is Mr. Armour a subscriber to any extent to those bonds?

Mr. WHITE. None whatever.

Mr. MORSE. He has not subscribed to any extent to those bonds?

Mr. WHITE. None of the family have.

Mr. MORSE. None of the family have or financial friends?

Mr. WHITE. No.

Mr. MORSE. He is not contemplating at the present time having any interest in those bonds?

Mr. WHITE. It is entirely sold to the banks for distribution to the public.

Mr. MORSE. And it is your hope that these bonds will be eventually converted into preferred stock?

Mr. WHITE. We have no doubt that will be done as soon as that conversion can take place.

Mr. MORSE. And in course of time, if you issue common stock, I presume you have not yet decided what the consideration of that would be, have you?

Mr. WHITE. There is no plan at all about the common stock at all.

Mr. MORSE. You do not know whether you would sell it for cash or give it out in the way of dividends?

Mr. WHITE. I have not the slightest idea.

Mr. MORSE. Or what you would do with it?

Mr. WHITE. No.

Mr. MORSE. Then, as I take it, there is not much in that newspaper article?

Mr. WHITE. The only thing in it is the fact we have sold sixty millions debentures that are convertible into preferred stock at 7 per cent.

Mr. MORSE. Does that cover the article, Mr. Tator?

Mr. TATOR. The article states the bonds will probably net about 96, and that sixty millions will be required to be converted into sixty millions preferred, with part of the hundred million preferred ultimately to be issued.

Mr. WHITE. The fact that Mr. Armour has decided to issue sixty millions of stock to-day does not estop him from issuing more as the requirements come on. The purpose of this was to get some new money in the business, and we had to do something to protect ourselves.

Mr. MORSE. Of course, you can go as far as you please. That is your own funeral, as the saying is.

Mr. WHITE. But I am sure if you had made a study of the requirements of this business for the last year in comparison with what it was in 1916 or 1917, in the way of money, you would see the necessity for such a move as was made here.

Mr. MORSE. I know something about the packing business in regard to that, for the reason that I have audited—I say I have audited—I mean, my firm has audited a great many bank accounts where we found packers' paper. I remember some concerns that made a specialty of handling packers' paper, so I know you do put out a lot of paper.

Mr. WHITE. Oh, my! Our increases here at times—there are certain times of the year when we will increase at the rate of a million or a million and a half per day over weeks at a time.

Mr. MORSE. Your business has practically doubled, hasn't it, in the last three or four years?

Mr. WHITE. In dollars?

Mr. MORSE. In dollars.

Mr. WHITE. Yes.

Mr. MORSE. And you have had to build additional plants and install additional machinery?

Mr. WHITE. In every packing house we own we have had to build, and we would to-day be building if building material and labor were available at reasonable cost; we would be building much more than we are at present.

Mr. MORSE. And on account of your——

Mr. WHITE. The business is so wearing on property, the changing temperature and the grease and the steam and cold air and all those things are deteriorating to your property. The packing business needs money all the time to keep it up. And then the Agricultural Department's ideas of a sanitary plant, the development of minds continually, are more and more strict. We can not kill cattle in places to-day that 10 years ago were considered to be ideal. We can not process meat in buildings to-day that five years ago we could.

Mr. MORSE. I appreciate that.

Mr. WHITE. To show you the difference, Mr. Morse, I have in mind now the instance where we had a fire a few years ago in what we called our No. 2 beef house. No. 2 beef house was built probably 20 years ago of mill construction, which was then considered the thing for a packing plant, and it was carried on our books around $250,000. A fire came along one night and wiped it out, and we started in to rebuild, and when we got a building to replace that an investment stood on our books of slightly over $1,000,000. We were doing just the same business in the old place, but you can see how our overhead increased on that investment, to do the same business.

We had to rebuild our oleo and butterine departments here this last year, and before we got through our investment in that department, building the plant, was over $750,000, with marble and enamel, and white tiled rooms, in which the butterine is handled, everything up to the last word in sanitation, etc., but the increased overhead on that investment is something to be considered.

Mr. MORSE. On account of your having to enlarge your plant and doing business under difficulties on account of the sudden large increase in volume, I presume your plant is not as efficient as it would be under ordinary circumstances and your expenses have been more?

Mr. WHITE. Tremendously more in every way. And then on top of that the great increase in the labor cost.

Mr. MORSE. I presume that the plant as a whole, the units, have been disturbed, so when you transfer from one department to another you can not do it conveniently. I might mention a little experience of mine that will illustrate this thing.

I went into a shipbuilding plant one time and the superintendent opened the door of the office and I went out in the shop, and as I went out there somebody hollered "look out," and everybody ducked, and I looked up and there was a great big crane moving a great piece of iron, tons of steel, and that crane picked it up very carefully from a machine in this end of the shop, traveled over to the other end of

the shop and deposited that stuff down on the other side of the shop, at some other machine. I stood there and watched it, and most every workman in the shop did the same thing, watched this load of iron go across on this crane. I said to the superintendent, "That is mighty inefficient. Those two machines should be placed close together, so that that crane could pick up the iron from one machine and just move a short distance, and every one would not stop work and watch this piece of iron going through the air." He said, "That is true, but the trouble is we had to install the other machine at the other end of the shop before this machine was installed, and we are going to move it when we can."

That is what I mean in regard to the placing of your units, on account of this large increase in business in the last four years, and your having to enlarge your plant, building a little addition here and something over there; your plant is not a complete working unit, and your expenses are increased, is not that true?

Mr. WHITE. That is it exactly. We have undertaken to do our business under the guidance—to live under the Food Administration's policy.

Mr. MORSE. They wanted increased production?

Mr. WHITE. They asked for increased production and we have tried to meet it, with the result we have taken in this live product into the plant and have had to rehandle it, store it, take it out and ship it, and run it from one end of the stockyards to the other in order to get storage, bring it in from Sioux City, where we have not got the big storehouses to take care of the kill there, and handle it in one house. Every two or three months some question would come up about a part of that product, and we would have to get it out and overhaul it and get it shipped. The restrictions of the movement of the business in natural channels has increased our expense tremendously. At the request of the Food Administration we have continued to pile up product and hold it, waiting for tremendous orders, which they expect. Everything has increased the strain on the business, increased the wear and tear on the property, and increased the cost of handling the product.

Mr. MORSE. This all reminds me of something, Mr. White. I do not know as the time is ripe to put the scheme I am now about to propose to you into operation, but I think it might be a good one under ordinary circumstances, and that is this: That you packers get together, all of you, and move, say, 25, 30, 40 miles out of Chicago, and erect a packers' city, where you can have model and efficient plants, have a homing or housing plant for your workmen. I think if you had that you would be able to erect plants to take care of your business and have the units all conveniently arranged, and you would decrease your operating expenses and work more efficiently and your labor be better contented, and all of that. I want to ask you, has that ever been considered?

Mr. WHITE. No; because it is sort of fantastic.

Mr. MORSE. You think it is? Other concerns have not found it so; or other industries, I should say.

Mr. WHITE. But here is a tremendous investment in Chicago Packingtown.

Mr. MORSE. That, of course, is an obstacle.

Mr. WHITE. Which you would have to find some way of wiping off the slate. If you take the net investment here and set it up against a town site 40 miles from here it would take about 100 years to eat it up.

Mr. HEMPHILL. There is a half a billion dollars invested in the yards, I should say.

Mr. MORSE. But the point is that you people at the present time are using in your business wastefully more capital than possibly you should use—I am speaking now from an economic standpoint—for instance, your land here that you are operating on is very valuable. Cheaper land could be had farther out.

Mr. WHITE. We have tried to meet that situation by the development of these outside packing houses, by going to Omaha, going to Denver, going to St. Joe and Kansas City.

Mr. MORSE. I presume the time is coming when you will have to get out of Chicago. I would not say so right now. In fact, I would be against that right now. I presume the city of Chicago itself might want you to get out some time?

Mr. WHITE. We are the biggest thing here now. We are the biggest taxpayers and the biggest subscribers to all their public and civic affairs, and we have got, I suppose, 100,000 people dependent upon this industry. That means a great deal to the city.

Mr. MORSE. Oh, yes. I had an interesting conversation a little while ago with Mr. W. E. Clark, in which he told me about the town of Clarksville, Ariz., in which are the houses of the United Verde Copper Co. industry. It was very interesting.

Mr. WHITE. Of course, he started new there. He opened up the development. It was easy. Now, we started new at Fort Worth. That is the last plant we built. If your work takes you there you will find two nice, large, modern plants, one owned by Swift and one by Armour. You will find a central office out in the plant by itself. We have a little park around it, and rooms to take care of the employees and all that sort of thing.

Mr. MORSE. You did not try to house your workmen?

Mr. WHITE. No. There is a town there, North Fort Worth. There was no point in doing it. A new town, and the places for the workmen were brand new anyway. It is a mile and a half from the city.

Mr. MORSE. Now, Mr. Whipple, you have been listening to the conversation. Have you any questions you want to ask?

Mr. WHIPPLE. I think you have covered pretty near everything.

Mr. WHITE. I hope, Mr. Morse, that my conversation with you this morning, in an analysis of this business, has left in your mind at least some doubt about the highly speculative feature of it.

Mr. MORSE. That is one thing I have forgotten. I supposed Mr. Whipple would have gone into it. I would like to bring that out.

Mr. White, do you think the packers' business, as a whole, is a hazardous business?

Mr. WHITE. I think it is one of the most hazardous businesses in existence.

Mr. MORSE. Why?

Mr. WHITE. Because of the product, the nature of the product; it must be sold in a fresh condition. For instance, this last two or three weeks, or the last three months, we have been getting into a situation

here on our eastern business, as the result of railroad congestion, the railroad moving the cars——

Mr. MORSE. But that is unusual, Mr. White.

Mr. WHITE. We always have it.

Mr. MORSE. That is unusual on account of the time.

Mr. WHITE. But we always have it in peace times by reason of weather conditions or storms, and things of that kind, our cars are delayed, but since this congestion of freight on the eastern seaboard we have had more trouble getting our product to market in a fit condition than we ever had in the hottest weather in the past. That is, we have our main trouble in July and August, in hot weather. Our cars are supposed to get icing every 24 hours, and we have had cars out here in the last two or three months that arrived at destination anywhere from one day to seven days late, and frequently without a bit of ice in the bunkers, and naturally the condition of the meat in them was anything except with the bloom on it, as we say. We had to force a sale of it.

Mr. MORSE. Entirely spoiled?

Mr. WHITE. No; it was fit for food. We could not sell it otherwise. But take a car of beef that leaves Chicago to-night. This is Wednesday night. It should be in the coolers, unloaded in New York on Monday morning. If it does not get there until Wednesday or Thursday, it will come out of the car a little bit sticky or a little mouldy or a little dark around the edges, and then immediately the buyers commence to discount that with the salesman. We have got to sell that at the best price we can get and take our chances. We have had car after car which in the past three months have shown losses of from a cent to 5 or 6 cents a pound in value. Our average margin in our total fresh meat turnover is about three-fourths of a cent a pound, so when we get that it multiplies pretty fast against the volume.

Mr. MORSE. Speaking from an economic standpoint, I would say those are simply ordinary occurrences in your business that you are familiar with and liable to occur any time, and which as long as you are in this business you have got to guard against. As an accountant I would not call that a particular hazard. A hazard, as we understand it, is something that is not liable to occur. Mr. Whipple suggests an act of God. I do not like to say that. Suppose you had a big fire or had a flood or something of that kind, struck by lightning.

Mr. WHITE. We have had all those things.

Mr. MORSE. Suppose your plant is blown up, something of that kind.

Mr. WHITE. I do not call that speculative in the sense that we are discussing.

Mr. MORSE. We agree on that then.

Mr. WHITE. Yes. This is what I say about this business. We go through a season. Here is a telegram. Excuse me while I read it.

Mr. MORSE. Certainly.

Mr. WHITE. I do not regard that at all in the nature of speculation, the acts of God. That is the hazzard of any business. But we go on——

Mr. MORSE. Those are things you are not liable to have, and things that have not occurred to the packing industry, to your business in recent years, is that right?

Mr. WHITE. Oh, we have had our floods and had fires and all that sort of thing.

Mr. MORSE. When did you have a flood?

Mr. WHITE. The last Kansas City flood we lost millions of pounds of meat in that.

Mr. MORSE. When was that?

Mr. WHITE. About 10 years ago. Isn't that right?

Mr. HEMPHILL. I think so.

Mr. WHITE. About a million dollars we lost down there.

Mr. MORSE. You lost that down there?

Mr. WHITE. Yes.

Mr. MORSE. Have you had any floods since then?

Mr. WHITE. No; but we get high water at Kansas City every year, and we always have to guard against it. That was one of the years it got away from us. Everybody was damaged.

Mr. MORSE. But you do not have any losses year by year by flood?

Mr. WHITE. No.

Mr. MORSE. And you have had no disastrous fires that have not been covered by insurance?

Mr. WHITE. No; we aim to cover our houses by insurance.

Mr. MORSE. Do you place your insurance with line companies, or handle it yourself?

Mr. WHITE. Yes; we place it with the line companies. Here is what I refer to. We are carrying an inventory to-day of approximately 250,000,000 pounds of products. We are in a war condition. The war could cease to-morrow, or within a few days, or months. We are on the highest prices ever known of in history for our product. Now, a 2, 3, 4, or 5 cent break from the pinnacle of values that we are on to-day would just tear our profit-and-loss sheet into ribbons. That is what I mean by highly speculative thing. It is so sensitive to a condition. We could have a money panic come on here and values shrink to nothing. But our product is liquid. That is why the banks like us so well. We can always get a sale at some price.

Mr. MORSE. You do not have any trouble in borrowing money?

Mr. WHITE. No. We aim not to have trouble.

Mr. MORSE. I mean your credit is such that you can get any amount of money any time you want, to operate with?

Mr. WHITE. Yes; but the business is so sensitive, fresh-meat products such as ours is, that it is just speculative itself. For instance, our total volume of sales in the United States for the six months ending April 27, 1918, amounted to $321,000,000. That is an increase of $94,000,000, or 41 per cent, over the same period last year. We sold the governments of that, including the Allies and the Belgian Relief, $107,000,000 worth of products. We have to be prepared to take that. Suppose a break would come; suppose the Food Administration and limitation would go out of business. Under the Food Administration hogs are supposed to be pegged at 15½ cents. The normal price for hogs would be about 6½ cents. Now, if this war ceases and the Food Administration goes out of business, and the farmer, too, sees that he is not going to get 15½ cents for hogs, and they come in here like rain by the hundred thousand, what will happen to the product we own? That is speculative. That condition, I

am only magnifying it as of date. But under just ordinary conditions in the business we carry from one hundred to one hundred and fifty million pounds of products from one season into another season. Last winter, through January and February and March, through the great run of hogs, we could not put them out into pickle and salt, we had to do something with them to provide for the time when there wouldn't be any hogs. So we cut pork loins and put them in the freezers as fresh pork loins, until the period of July and August, and then will sell them as pork loins.

Mr. MORSE. But you do not think those conditions will happen after the war?

Mr. WHITE. The speculative condition of the business?

Mr. MORSE. You do not seriously look forward to any slump. I say slump. I mean such a dropping of prices, do you, on food products?

Mr. WHITE. I think every industry in this country—excepting none—will feel a depression after the war.

Mr. MORRIS. Not immediately after the war. You do not mean that, do you?

Mr. WHITE. I mean the day peace is started to be negotiated.

Mr. MORSE. My opinion is that you are going to be disappointed on that, because experience has proven after a war the inflation usually keeps up for awhile and the severe strain is felt maybe two or three years, and it has been known as late as four years after a war is over, because the people after this war is over have got to have food just the same as they have it now, just the same quantity. They have all got to be fed just the same. And there is a lot of rebuilding and reconstruction and all that to be done, and you are not going to have a business slump immediately after the war, although it will come—it has to come some time. Whatever goes up has got to come down, no doubt about that.

Mr. WHITE. Yes.

Mr. MORSE. But you will find, I think, that it will be two or three years after the war before there is any serious business depression occurring. And your prices—that is, beef prices—I expect, will keep up pretty fair for a considerable period after the war, so you have not got a hazard there, I do not believe.

Mr. WHITE. Of course, that is your idea.

Mr. MORSE. I am only offering it for what it is worth, of course.

Mr. WHITE. My analysis of the business situation to-day, of our business, is that it is on inflated values. It is on inflated values of raw materials. It is on inflated values of labor and on inflated values of finished articles.

Mr. MORSE. No doubt about that.

Mr. WHITE. The thing that inflated it was the war, and the cessation of war ought to take some of the inflation away.

Mr. MORSE. It will come in time, but not right away after the war is over.

Mr. WHITE. Yes.

Mr. MORSE. It comes usually by a readjustment, and a readjustment is always gradual. It can not be all at once.

Mr. WHITE. I would hate to see it all at once.

Mr. MORSE. If you would have it all at once you would have an awful panic.

Mr. WHITE. We had a panic after the Civil War, but it did not come till six years after.

Mr. MORSE. There you are. That is the history of those things. It always comes considerably later than the time the war ceases.

Mr. WHITE. Yes. But here is the situation in this business, the speculative feature of it. If we take an inventory to-day—we never take it in the midweek—but if we take inventory June 1 of our business and close our books we would show a loss in the month of May of over a million and a half dollars in inventory values.

Mr. MORSE. Speaking of inventories, Mr. White, you inventory your product at market?

Mr. WHITE. Yes.

Mr. MORSE. In doing that you always either take a profit or a loss?

Mr. WHITE. Yes.

Mr. MORSE. You are bound to.

Mr. WHITE. Yes.

Mr. MORSE. One way or the other, whatever way it is.

Mr. WHITE. Yes.

Mr. MORSE. So that your stated profit or losses are always controlled absolutely by this inventory; is not that right?

Mr. WHITE. Yes.

Mr. MORSE. And it is not possible, in your opinion, to take an inventory at cost price?

Mr. HEMPHILL. We figure a few of the specialty departments at cost.

Mr. CHASE. Is not beef at cost? Dressed beef is at cost, is it not?

Mr. HEMPHILL. Dressed beef; yes. All of our carcass.

Mr. MORSE. I understand from what Mr. Hemphill said, some of your inventory you figure at cost, as near as you can figure it, and some of it at market?

Mr. WHITE. What he refers to that he figures at cost is the manufactured article in our specialty lines, like our grape-juice department, soda-fountain department, preserved fruits and jellies, which we buy from the producers and put into package form. There would not be any question about the basis of that. You would inventory that at cost and only take your profit when you dispose of it, but on our meat products, the general line, we inventory them at closing periods and the then market, and stand or fall on the profit or loss as of that date.

Mr. MORSE. So, in your inventory, that portion of the inventory that is figured at market, you do not get your profit until you have actually sold your goods and you may sell those goods above the profit on which you have computed such profit; is not that right?

Mr. WHITE. Yes. If we inventoried last Tuesday this great warehouse full of meat at the market our departmental statements would show a profit or loss on the basis of that day.

Mr. MORSE. But you might not get rid of that stuff for months to come?

Mr. WHITE. Three or four months, or five months. And then in the interim between the time when we inventoried it and the time we sell it two things would happen. It would either go up in value or go down in value.

Mr. MORSE. Therefore, do you think that these rules and regulations of the Government have been in force long enough to give much of an idea as to their workability?

Mr. WHITE. I do not think so.

Mr. MORSE. Do you think they should remain in force——

Mr. WHITE. I think that this at least takes a year—I am talking about the general basis I think before you arrive at a conclusion as to the application of these rules that you must study at least a year's business of the packing industry. I do not think it is fair otherwise, because there are some departments that do not realize on their stuff in the six months that have been under observation.

Mr. MORSE. Is there anything you want to ask Mr. White?

Mr. CHASE. I would like to put one question in there.

Mr. MORSE. All right, Mr. Chase.

Mr. CHASE. Would you favor, Mr. White, a regulation based on sales?

Mr. WHITE. Rather than on the investment?

Mr. CHASE. Yes.

Mr. HEMPHILL. I might say in that connection that the Canadian regulation is 2 per cent of the sales, a flat regulation, 2 per cent of the sales. That is the one you were getting at this morning.

Mr. MORSE. Yes.

Mr. WHITE. It would depend on the amount of it. I do not think it would make any material difference.

Mr. MORSE. It would overcome some of these difficulties we have been talking about, wouldn't it?

Mr. WHITE. Yes, sir; entirely.

Mr. CHASE. Simpler to account?

Mr. WHITE. Yes.

Mr. CHASE. And if the rate was satisfactory——

Mr. WHITE. If the rate was satisfactory it would be all right.

Mr. CHASE. You would not seriously object?

Mr. WHITE. No. In fact, that is the method I suggested to the Hide and Leather Control Committee for regulating the leather industry. That is a very complicated business.

Mr. MORSE. You think that the percentage on sales would work out better and be more equitable; do you have that opinion?

Mr. WHITE. Yes.

Mr. MORSE. It would do away with a lot of these difficulties we have been talking over?

Mr. WHITE. Yes; I think that would be fair, provided, of course, the figure was a reasonable figure, and it seems to me that on a proposition that it is sort of satisfying to the general public, a little better. For instance, if you would say to the public that the packers can not make but 4 cents on a dollar and very little turnover, no matter how much business they do—you do not care whether it is a thousand million a year or ten million or ten hundred million, you do not want a business that is not economically sound. Now, if you say to the public, "Don't worry about the volume of that business, we have got the iron hand of the law on it, because they can only take a toll from the citizens of 4 cents on the dollar on their loins," then it is all right; you have got a situation that would satisfy them. But I do not think it would be fair, in answer to Mr. Chase, to apply

a figure to the packing business on the basis of the meat industry to the fertilizer and these highly specialized industries like the glue business. For instance, in some of the departments of this business we do not turn our money but once a year. In the glue business we turn our money once a year. It would not be fair to the glue business to say you are going to limit that great big industry with a $6,000,000 investment down there the same as the meat industry that turns over every two weeks.

Mr. HEMPHILL. Your remarks apply to class 1?

Mr. CHASE. I was thinking of class 1 when I formed the question.

Mr. WHITE. The answer to class 1 is "Yes," that the reasonable figure should be as equitable—and I think Mr. Cotton had that in mind when he put a limitation on turnover as well as on the money invested.

Mr. HEMPHILL. You understand the regulation is a double-header. It is 9 per cent of the investment provided it does not exceed 2½ per cent of the sales.

Mr. MORSE. Mr. Whipple, have you anything else to ask?

Mr. WHIPPLE. I think you have covered it.

Mr. MORSE. By the way, at this point I would like to have Mr. Chase take up with Mr. White those percentages, your percentages there, showing the variation between the classes of the different packers and on the basis that you figured in per cent Armour & Co. would make for the year.

Mr. CHASE. Get his comments on that?

Mr. MORSE. Yes.

Mr. CHASE. Have you got a copy of that?

Mr. MORSE. You have not yet made any revision there, have you, Mr. Chase?

Mr. CHASE. No.

Mr. MORSE. It is fair he should see that.

Mr. CHASE. Yes, the other people have seen it.

Mr. White, do you think that these figures I have prepared showing earnings on net worth on the basis of the first four months of packers' returns for the Food Administration are a reliable index of the actual year's results?

Mr. WHITE. I do not think so.

Mr. MORSE. Why, Mr. White? State your reasons.

Mr. WHITE. We have gone through a period there of increasing values in products, which would show cumulatively in an inventory—these figures are only inventory closings, not actual sales. It is a cumulative period on the product and at the end of this period the inventory would show the apex of the year, and we have taken the profits as of the inventory.

Mr. MORSE. You have taken book profits but not actual profits?

Mr. WHITE. That is it exactly. We have not realized on the matter. We have simply taken a paper profit as shown in the inventory, and it would not be fair to assume a year's results by four months' profit on this business.

Mr. MORSE. You see by Mr. Chase's figures that 23.64 per cent on this basis would be your annual profit, based upon your net worth in all classes of business?

Mr. WHITE. You did not have the right page.

Mr. CHASE. That is your allowed profit?
Mr. MORSE. Yes.
Mr. WHITE. Your earnings would be 19.73.
Mr. MORSE. That should be 19.73; yes. Change that, please.
Mr. HEMPHILL. That is actual earnings you are looking up now?
Mr. MORSE. Yes. Do you think you come anywhere near that or exceed it?
Mr. WHITE. The indications of the business at the moment are that we will not come anywhere near it.
Mr. MORSE. On your whole business?
Mr. WHITE. On our entire business.
Mr. CHASE. If you had this allowed profit, has there been any prior year that has been any better? I suppose you would have to look that up?
Mr. WHITE. I could not answer that.
Mr. CHASE. That is all, thank you.
Mr. MORSE. I might say for the record a computation has been made as to the annual rate of interest for 26 weeks on borrowed money by Mr. Hemphill, and the same is found to be 5.489 per cent.
Mr. WHITE. I want to call attention to the wool account. Our statement for 26 weeks ending April 27 shows an investment in the wool account of slightly over $4,000,000, which is more money than we have invested in our sheep account. The only place where the sheep department is interested in the wool is in the transfer price of the sheepskin, and our method is to transfer that at the full market price as of the date at which it is taken off the sheep's back. The wool department buy sheepskins all over the world, sort the wool into at least 40 different grades, sort the pickled sheepskins into at least 20 different grades, and thereafter manufacture the sheepskins into highly specialized lines of leather. It hardly seems consistent that this wool showing should be considered in class 1.
I hope I have made a little impression on you gentlemen on the question of the elimination of these departments. That is all. I think that is the big thing we want.
(Whereupon at 12.20 p. m., a recess was taken until 1.30 p. m.)

AFTER RECESS.

CHICAGO, ILL., *June 12, 1918—1.30 p. m.*

Present on behalf of the Federal Trade Commission: Stuart Chase, Esq., Samuel W. Tator, Esq., Perley Morse & Co., certified public accountants, New York, represented by Perley Morse and P. S. Whipple.
Present on behalf of Wilson & Co.: G. H. Cowan, Esq., vice president; H. B. Goff, Esq., general accountant; and F. H. Knief, Esq., chief accountant.
G. H. Cowan was called as a witness, and being examined, testified as follows:
Mr. MORSE. Mr. Cowan, you are familiar with the United States Food Administration meat division rules and regulations that have been in effect since November 1, 1917?
Mr. COWAN. Fairly so.
Mr. MORSE. This is a copy of it I have here [handing paper to Mr. Cowan].

Mr. COWAN. Yes; we have copies of this.
Mr. MORSE. Have you any criticism to make as to the divisions of the businesses in classes 1, 2, and 3; that is, the segregations in class 1 and in class 2 and in class 3?
Mr. COWAN. Yes; I have.
Mr. MORSE. Please state what your objections are to the segregations in the various classes.
Mr. COWAN. I understood from Mr. Durand that the ruling was that tentatively all of our departments were practically in class 1, and he told me personally, and told it in the presence of other gentlemen in his office that we would go on under that arrangement for the time being.
Mr. MORSE. By that arrangement you mean this arrangement?
Mr. COWAN. I mean the arrangement that all the departments were practically considered in class 1, and that after a few months the matter would be gone over with the idea of allocating certain departments into classes 2 and 3, segregating them from class 1, and with those instructions we went on without any further objections.
We had taken some exceptions to his including some things in class 1. For instance, the wool pullery was included as a class 1 department, and we did not feel that it was fair that it should be regulated allowing but 9 per cent profit on the wool pullery, when others in the same line of business were not regulated at all. In fact, it placed us—it was an unfair regulation. It would be if it was made permanent, because others outside of the packing industry, competing on the same market—the placing of us on a 9 per cent regulation would rather put us out of business.
That was one. There is another one. We have several competitors, large competitors, in the butterine business. Moxley, W. J. Moxley & Co. and—who is the other?
Mr. GOFF. Jelke.
Mr. COWAN. Jelke & Co. and others in the butterine business. They are competitors. We are doing business in the same markets under the same conditions and, of course, we could not help but feel we were discriminated against.
Mr. MORSE. Don't you sell to these people some of the products they use?
Mr. COWAN. We sell some. I do not know whether we sell to—
Mr. KNIEF. Same packing-house products?
Mr. COWAN. We do not sell any butterine to them.
Mr. MORSE. I mean some of the component parts that go into butterine.
Mr. COWAN. Well, we might at some times sell them butterine oil. That is all. They buy from others. They buy from us also.
Mr. MORSE. How would you compete with these people if you sold them some of the products that go into the butterine, or go into whatever it may be? You sell them the raw material, don't you?
Mr. COWAN. We do sell them raw material. It is sold on the market. Take oleo oil, for instance. Oleo oil has an established market. The price we get for that oil is the same they would get out on the market when buying elsewhere, and it would be the same price that we would perhaps charge to our own departments.

Mr. MORSE. You mean to say you would sell them any surplus you have or you could not use yourself, is that it?

Mr. COWAN. Yes, we would.

Mr. MORSE. Are there any other lines in class 1 that you think should be placed in either class 2 or 3?

Mr. COWAN. If that is our whole list—this is, Frank, is it not?

Mr. KNIEF. Yes, that is our whole list.

Mr. COWAN. I would say not.

Mr. MORSE. You do not think of any other class of business or any other kind of business that is now in class 1 that should go in class 2 or 3?

Mr. COWAN. I do not think so.

Mr. MORSE. According to your idea?

Mr. COWAN. I do not think so, Mr. Morse. If the others were all under the regulation, I would consider it fair.

Mr. MORSE. Are you familiar with the Canadian regulations?

Mr. COWAN. I would like to take up class 2 first.

Mr. MORSE. Certainly.

Mr. COWAN. Under class 2 under the 15 per cent regulation, there is animal food and bedding and glue and soap, curled hair, animal oil, and tanning, which we feel ought to go in class 3.

Taking them up in the order in which they come, there is animal food, which is, using a packing-house term, what we call high-protein tankage. This is something that is processed. This is a product which is processed beyond the state in which it is ordinarily marketed, and it brings it into a class of business which is in a competitive way outside of the ordinary packing-house products. Of course, we are competitors in that line with many others who are producing the same products. The same point arises there—that we are regulated and the other party is not.

Bedding is something entirely outside of the packing-house line. Our bedding—perhaps you can tell me what percentage of outside hair it is, Frank; can you tell me offhand?

Mr. KNIEF. It is 80 per cent outside hair.

Mr. COWAN. Eighty per cent outside of our own hair—the hair produced at the packing house, or from the killing or slaughtering, as you call it—under these regulations is outside hair, and we are competing in that department—our bedding department—we are competitors with all the bedding concerns that are in the country who produce hair-stuffed bedding.

Mr. MORSE. Where do these bedding companies purchase their hair?

Mr. COWAN. They purchase it all around, the same as we do—anywhere they can get it.

Mr. MORSE. Don't they purchase the principal part from you?

Mr. COWAN. Not at all. We do not sell any. All we do is buy.

Mr. MORSE. I should make that a little more general. From the packers, do they purchase from the packers?

Mr. COWAN. I do not know whether they do from the packers. They don't from us, because we are buying hair and not selling.

Mr. MORSE. In fact, you have no surplus of hair?

Mr. COWAN. No.

Mr. MORSE. You use up all you have?

Mr. COWAN. Yes.

Mr. MORSE. You sell none at all?

Mr. COWAN. No.

Mr. MORSE. But you buy in the market wherever you can buy it?

Mr. COWAN. Wherever we can buy it.

Mr. MORSE. You do buy from the packers?

Mr. COWAN. I do not think so. Do we, Frank?

Mr. KNIEF. It may be, in very isolated cases.

Mr. MORSE. What class of concerns do you buy this hair from?

Mr. KNIEF. What was that question?

Mr. MORSE. What class of concerns do you buy this hair from; what is their line of business? What is their main line of business?

Mr. KNIEF. That is problematical. I would have to get out some of the vouchers and find out.

Mr. MORSE. Can you mention the names of some of the concerns you buy hair of?

Mr. KNIEF. No; I could not.

Mr. COWAN. We could find out for you. We buy it anywhere we can get it, from anyone who has it to sell.

Mr. MORSE. We are naturally led to believe that this hair is a by-product of different packing concerns.

Mr. COWAN. That is the impression, but it is wrong.

Mr. MORSE. That it is bought from some other packers, large and small. That is what we are trying to find out, if there is any other way you can produce hair or bedding except as a by-product from a packing house. Can you enlighten us on that?

Mr. COWAN. I can not.

Mr. KNIEF. We can get out some of the vouchers.

Mr. COWAN. We can get you that information—glad to do so.

Mr. MORSE. Does Wilson & Co. run as large a bedding establishment as any of the other packers? Are you particularly engaged in that?

Mr. COWAN. I think so. I do not think the other packers are engaged in it.

Mr. CHASE. There is no other packer doing it.

Mr. MORSE. So Wilson & Co. are the only packers running a bedding department?

Mr. COWAN. As far as I know.

Mr. MORSE. And, naturally, you buy their hair, don't you?

Mr. COWAN. I do not know how much we buy. I do not know whether we bought some; I suppose we have bought some.

Mr. KNIEF. From the other packers?

Mr. COWAN. I don't know.

Mr. KNIEF. We may have bought some.

Mr. MORSE. What are the gross sales for the year for the bedding department?

Mr. COWAN. Can you answer that, Frank?

Mr. KNIEF. Not offhand.

Mr. MORSE. About.

Mr. COWAN. How long since this department was opened? It is only a short time ago.

Mr. KNIEF. I do not think it is a year old.

Mr. MORSE. What percentage of your entire business is your bedding?

Mr. COWAN. A small percentage of our entire business.

Mr. KNIEF. Mighty small.

Mr. MORSE. You are not able to put an estimate on it, are you? Mention the amount.

Mr. COWAN. I could not. No; I could not.

Mr. MORSE. Are there any other things that you consider wrongly classified?

Mr. COWAN. Yes; there is glue. Glue; we are competitors of all the glue concerns in the country, and I guess there are a thousand glue concerns in the United States; and the same explanation and the same objection would apply to glue. We feel that there is no reason why we should be singled out and regulated as to our profit in glue.

Mr. MORSE. Are the best grades of glue generally made out of animal products or out of some other material; do you know that?

Mr. COWAN. I think the best grades of glue are made from animal products.

Mr. MORSE. So that really there is no competition between the glue made out of animal products and that made out of, say, vegetable products, as the glue made out of animal products is better.

Mr. COWAN. I would say there is a division—I do not know as to the grades of glue, whether any vegetable glues might be higher grade or better glues than animal glues. I do not think they are.

Mr. MORSE. Have you any knowledge on that, Mr. Cowan? I confess I have not.

Mr. COWAN. No; I am not a glue man. I don't know much about it. I do know there are thousands of glue concerns in the country, and their products are made from animal materials, that these animal materials are supplied by small butchers and fat collectors and rendering companies, and all in that line of business all over the country, and that a lot of that stuff finds its way into glue, and the materials are purchased by glue manufacturers. Of course, we have the materials here.

Mr. MORSE. Do you manufacture all of the glue materials yourself, or do you sell some to outside concerns?

Mr. COWAN. No, we manufacture it all.

Mr. KNIEF. We have sold some where we could not handle it, where we did not have enough tank capacity in our bone house to handle it.

Mr. MORSE. In other words, you sell the surplus to other people.

Mr. COWAN. That would appear to be true.

Mr. MORSE. Would not you say, Mr. Cowan, that you are a little fearful of competition, when as a matter of fact that could not exist on account of the fact that you control the original source of supply and have to sell the surplus to outside concerns?

Mr. COWAN. If we did control the original supply of materials that would be true, but we do not; we do not control any part of it.

Mr. MORSE. You misunderstand. I do not think the packers hold control, but I mean you yourself; you control the by-products which you obtain from the animals. You have got to control that, and see that you do, and you use such parts of that as you find convenient or necessary to meet your demand for the particular articles you want to produce, and the balance you sell. Now, don't you think

that competition would be very small as against a concern that controls the very articles they are selling to somebody that wants to compete with them in manufacturing the same articles?

Mr. COWAN. I do no know that I quite understand you.

Mr. MORSE. Now, let me make that a little plainer, if I can. Take in the case of glue. You have certain by-products that you use. What you can not use yourself you sell to some one else. You first have had the benefit of the market supply and demand. Your material has been cheap to you, because you produce it yourself, and after you have supplied the demand, somebody else comes forward and wants to buy the surplus that you have not used. Do you really think that you have to fear that man as a competitor?

Mr. COWAN. Yes, I do; because the other fellow, our competitor, is perfectly free to go and buy and sell as he pleases without any regulation whatever.

Mr. MORSE. I know; but you people already monopolize the business. Now, I don't mean that in the way that it may be taken.

Mr. COWAN. You mean we are in a stronger position because of our having the material here and not having to go out and buy.

Mr. MORSE. Yes.

Mr. COWAN. I might answer that by saying there is a market for those materials always, whether we have those materials here or not.

Mr. MORSE. But you do not have to go out into the market and purchase these materials?

Mr. KNIEF. We have to occasionally.

Mr. MORSE. Occasionally; yes. I can see that.

Mr. COWAN. There is a market for those materials, Mr. Morse, and whether we have the materials or whether the other fellow has them there is that market; the market is established. What difference does that make, whether we control the materials and not go through the operation of producing glue——

Mr. MORSE. That is true, but you already own those materials. You do not have to go to the market, so you can compete with the outsider; you certainly do not fear his competition.

Mr. COWAN. May I ask a question there?

Mr. MORSE. Certainly.

Mr. COWAN. What would be the object of regulating us and singling out the packers or Wilson & Co., or regulating us and saying, "You may have 15 per cent," while the other fellow is absolutely free to buy and sell as he pleases and make as much money as he pleases?

Mr. MORSE. Only this. You have expressed a fear of competition in certain lines. Therefore you want the restriction removed as to profit against those lines so that you can compete with the outsider, and my line of inquiry has been such as to try to show you that your fears of competition might be groundless, that you have nothing to fear from the outside, because you control the source of supply more or less. I do not say altogether. You do more or less.

Mr. COWAN. You see, we control so small a part of that source of supply.

Mr. MORSE. You control it all as far as Wilson & Co. are concerned; that is, what Wilson & Co. use you control it all.

Mr. COWAN. Well, we control it, but we control it at a price as high as the other fellow would have to pay for it.

Mr. MORSE. But you are taking a profit there.

Mr. COWAN. We are not.

Mr. MORSE. You are, when you consider the market price.

Mr. COWAN. Absolutely not.

Mr. MORSE. You are taking a profit before you sell your goods?

Mr. COWAN. No; we are not. That is where I want to take exception. Anything, any by-products, any materials which are the result of our handling, we will say, which are the result of our killing, is credited to our beef, we will say, or to our pork, at its full market, and that places it in our hands as a by-product or material for the manufacture of a by-product at a price which many times is about the market price on that very same material. Is not that the fact?

Mr. KNIEF. Yes.

Mr. MORSE. Now, Mr. Cowan, you can not always regulate these by-products, can you? Sometimes you will kill a lot of animals to meet the demand, say, for fresh beef, pork, and what not, and you will accumulate a large supply of by-products of various kinds, fats, what they go into, glue, whatever it is, accumulate a lot; you can not use them up and you have to preserve them probably at an expense, and have to keep them in condition, so that when the market is so you can use them to advantage, you do so; in fact, your having a large lot like that, it would not pay you to work them all up at once, because it would be a loss, but you wait until the time is convenient, when you can convert these by-products at the proper time into whatever you want to manufacture them, is not that true?

Mr. COWAN. That is true.

Mr. MORSE. And at times you have to keep these materials a week, a month, two or three months, or six months, and may be a year?

Mr. COWAN. Yes; and may be we have to pay storage on it, build up an expense, and pay insurance, carry them along.

Mr. MORSE. In the meantime?

Mr. COWAN. In the meantime; yes.

Mr. MORSE. You are put to quite an expense as you carry them along?

Mr. COWAN. Yes.

Mr. MORSE. Therefore, this being the case, any market price fixed on these products at any particular time, considering the market price, is merely a book profit; it is not a profit until the article is sold?

Mr. COWAN. There is no such thing as profit until the article is sold.

Mr. MORSE. What is that?

Mr. COWAN. There is no such thing as profit until the article is sold. It has been our experience right along this line that time after time, and it is repeated over and over, materials of this sort in our inventories are carried, after adding our carrying charges, our inventories, at prices which are far in excess of what we can get out on the market and buy it at.

Mr. MORSE. In other words, you might make a book profit or might make a book loss, and when you place this so-called market price on these products you are either taking the present book profit or the book loss, and you do not know which it is until the article is finally disposed of to a customer?

Mr. COWAN. That is true.

Mr. MORSE. So your periods of ascertaining of profit do not show real profits always, do they? For instance, you make up a statement as of a particular date as to profits. Now, you state your profits or your losses, whatever the case may be, as so much. That is not necessarily actual or true, because the goods have not been finally disposed of to the customer and you have not got your return on it, you have not been paid for it, so your profits necessarily are untrue to that extent.

Mr. COWAN. The profits are untrue to the extent of any fluctuations there may be or any inflation, or the opposite, that there may be in our inventories, which we carry over.

Mr. MORSE. Whenever you take an inventory, do you take a portion of it at market value and a portion of it at cost, and a portion of it estimated, and like that?

Mr. COWAN. We take it—we try as far as possible, Mr. Morse, to take our inventories at the market.

Mr. MORSE. Is there any portion of it taken at cost?

Mr. COWAN. How is that, Frank?

Mr. KNIEF. The bedding department is at cost, and the carcass account, if we have any carcasses on hand.

Mr. COWAN. This is peculiar to the packing business. It is peculiar to the packing business. It is not good accounting, perhaps.

Mr. MORSE. Mr. Cowan, you have had training as an accountant, have you not?

Mr. COWAN. I have.

Mr. MORSE. It is the accepted theory among accountants that inventories should all be made at cost?

Mr. COWAN. Yes, sir.

Mr. MORSE. Whenever an inventory is made, as indicated at cost, are you either taking the book profit or the book loss, and of the date that you make up your profit statement?

Mr. COWAN. Yes, sir.

Mr. MORSE. And your profits or losses so stated are more or less fictitious?

Mr. COWAN. True.

Mr. MORSE. In your opinion, do you think a cost system could be installed in the packing industry that would give actual cost, so that inventories and transfers between departments could be charged or credited at cost?

Mr. COWAN. I think it would be exceedingly difficult.

Mr. MORSE. You think it would be very difficult or exceedingly difficult, but do you think it is possible? I have come to you for that information; you are an accountant and I have no doubt you have given it very hard, careful consideration, because you realize the importance from an accounting standpoint of getting the exact cost, or as near the exact cost as it is possible to get.

Mr. COWAN. I want to answer your question, and I want to answer it intelligently.

Mr. MORSE. That is why I ask you about these difficulties—you know them better than I do, because you have had the same training that I have had and in addition you have had the experience of being on the inside and having studied carefully the packing industry.

Mr. COWAN. I want to illustrate one of the difficulties. Say that you buy a thousand hogs to-day on the market here in Chicago, and we will charge the fresh-pork account with the total cost of that thousand hogs. The hogs are brought in here and are killed and hung a few days in our chill rooms, and then they are out, they go into the cutting department and they are cut, and they are cut into the various pork cuts, the hams and the ribs and the loins and all the various cuts—how many would there be, Frank, how many cuts on a regular ordinary cutting, just a guess?

Mr. KNIEF. I would say 50.

Mr. COWAN. Fifty different cuts out of a hog. Now, I am frank to confess that I am not accountant enough to be able to determine the cost on the 50 various cuts out of that hog. Some of those cuts, a certain percentage of them, go to the sweet-pickle department, some of them to the dry-salt department, others are sold fresh. There is the cost of curing those various kinds in the pork department, and I want to say that I think it would be almost impossible to determine the cost of those products as they are ready for public consumption. It could only be obtained by arbitrary prices being placed upon them, and when we get into arbitrary prices we have lost the cost element.

Mr. MORSE. You know, Mr. Cowan, that it is claimed that cost systems have been installed in hotels where they buy a slab of beef or a side of mutton, or what not, and can tell the exact cost of each cut, each lamb chop a man eats?

Mr. COWAN. I have heard of it.

Mr. MORSE. The slice of roast beef put on his plate, his potato that he puts into his mouth, and all that?

Mr. COWAN. I have heard such a thing has been done.

Mr. MORSE. Do you think if that can be done in a business as fluctuating as the hotel business it could not be done in a business industry?

Mr. COWAN. I don't believe it is done in the hotel business.

Mr. MORSE. I would not swear to it. Mr. Cowan, as to the assets of Wilson & Co., do your books show the segregation of your investments through classes 1, 2, and 3, as prescribed by the United States Food Administration rules and regulations?

Mr. COWAN. Our books do not, Mr. Morse.

Mr. MORSE. You have, however, I presume, compiled some statistical record of arriving at the amount of investment in these classes?

Mr. COWAN. We have.

Mr. MORSE. The books by themselves do not show this without making some additional figuration?

Mr. COWAN. No; they have never been kept that way, but we have not changed them.

Mr. MORSE. Do you consider the way that you have divided up your capital investment in these three classes to be absolutely accurate?

Mr. COWAN. As near as is possible to determine.

Mr. MORSE. As near as is possible with the material available to determine what the investment is of each class?

Mr. COWAN. Yes, sir.

Mr. MORSE. Mr. Cowan, the balance sheet of Wilson & Co. for the period ending 1917 shows net fixed assets of about $26,000,000. Do

you consider that that is the actual value of the assets of Wilson & Co. at that period. I am making a distinction, Mr. Cowan, in asking that question, between the book value and the actual value?

Mr. COWAN. I don't think it represents the full value, speaking of actual values.

Mr. MORSE. Why not?

Mr. COWAN. Well, for the reason that to replace our property at the present time would probably cost us 50 per cent in excess of that $26,000,000, the replacement value of those properties.

Mr. MORSE. You mean 1914, 1915, 1916, 1917, and 1918?

Mr. COWAN. I am speaking of the date which you have given, 1917. I have no doubt it would cost us 50 per cent more to replace those properties.

Mr. MORSE. How was this valuation of $26,000,000 obtained?

Mr. COWAN. It was obtained by an appraisal in 1915, was it not, Mr. Goff?

Mr. MORSE. By whom?

Mr. GOFF. M. J. Flaherty.

Mr. MORSE. Who is he?

Mr. GOFF. He is a Chicago appraiser.

Mr. MORSE. He operates an appraisal company or appraises property on his own——

Mr. GOFF. He is in that business.

Mr. MORSE. He appraised this property at what amount? Do you remember?

Mr. GOFF. In 1915?

Mr. MORSE. Yes.

Mr. GOFF. Something less than that amount which you have mentioned.

Mr. COWAN. The difference between this 26,000,000 that you mentioned and any additions that were made between the date of his appraisal and this date—depreciation, I should say, any depreciation deducted—the depreciation was deducted from this 26,000,000, was it not, Mr. Goff?

Mr. GOFF. Yes, sir; it show the net.

Mr. MORSE. Mr. Flaherty, when he made the valuation in 1915, did he use the cost price or market price or replacement price at that time, do you know?

Mr. COWAN. I am sure I could not say. It was prior to my time here.

Mr. MORSE. Do you know that, Mr. Goff?

Mr. COWAN. I don't know whether he used the cost of the material or the market.

Mr. GOFF. Yes, he used——

Mr. COWAN. Of course, he must have used the market.

Mr. GOFF. He used the market prices at that time?

Mr. MORSE. The market price was the basis of the appraisal at that time?

Mr. COWAN. I don't believe, Mr. Morse, any of us are competent to say now, because we don't know what he had in mind.

Mr. MORSE. Do you believe, Mr. Cowan, that you should be allowed profits on what you consider the present value of your plant?

Mr. COWAN. Yes, sir; I do.

Mr. MORSE. You have talked that over among yourselves?
Mr. COWAN. Yes, sir; we have talked—we discussed it with Mr. Durant at the time when the profit regulations went into effect. We told Mr. Durant that we felt that we ought to take in and add to our property the amount of our good will, which is $11,000,000.
Mr. MORSE. You have not applied to any governmental officials or bodies to obtain permission to increase your plant account to what you consider its present value?
Mr. COWAN. We have not.
Mr. MORSE. Do you intend to make any such request?
Mr. COWAN. No, sir.
Mr. MORSE. You do not intend to make any such request?
Mr. COWAN. There is no intention now; no, sir.
Mr. MORSE. In your balance sheet you have an item of good will about $11,000,000?
Mr. COWAN. Yes, sir.
Mr. MORSE. Is that considered by you in any way part of your investment in classes 1, 2, and 3?
Mr. COWAN. It is not.
Mr. MORSE. Does this $11,000,000 good will represent common stock that was issued at the time of the organization of Wilson & Co.?
Mr. COWAN. That I can not answer.
Mr. MORSE. Can you answer that question, Mr. Goff?
Mr. GOFF. No, I don't think I can.
Mr. COWAN. Mr. Goff was here. I was not in the organization at that time.
Mr. MORSE. There is no one present, none of you gentlemen that know just what this good will represents on the balance sheet, except take it on its face, and you don't know whether there was common stock or any securities issued against it.
Mr. COWAN. Personally I do not know, but if you want information, I will be glad to supply it.
Mr. MORSE. I will say, Mr. Cowan, I don't think that is material, but as long as you say it was not taken in as a part of your investment, I don't know as it is material from the Government's standpoint, although as I understood you stated a while ago, you wanted to add that to your plant value.
Mr. CHASE. Don't you want to talk that over some time?
Mr. COWAN. I do.
Mr. CHASE. I think it would be well to get that information in the meantime.
Mr. COWAN. I would like it very much. I would like to argue that point.
Mr. MORSE. Mr. Cowan, suppose we leave it that way, that Mr. Chase shall see you some other time and have a conversation regarding that.
Mr. COWAN. Yes, I will be glad to go into Mr. Chase's office or see him before you leave, while you are here, at any time you want; I would like to have the facts before me.
Mr. MORSE. Now, you have in your business, I presume, a great deal of borrowed money?
Mr. COWAN. Yes, sir.

Mr. MORSE. What is the average rate that you paid for your borrowed money?
Mr. COWAN. The average rate for what period?
Mr. MORSE. For the period November 1, 1917, to date, what would it average; what per cent?
Mr. COWAN. I do not like to venture a guess on that. I would like to get information to be exact.
Mr. MORSE. Do you think it averages 6 per cent?
Mr. COWAN. I should say, roughly, 6 per cent.
Mr. MORSE. Any excess over 5 per cent you charge to cost of production, do you not?
Mr. COWAN. We do.
Mr. MORSE. According to the paragraph here in the rules and regulations?
Mr. COWAN. We do.
Mr. MORSE. That is on borrowed money?
Mr. COWAN. Yes, that is right.
Mr. MORSE. This company has a bond issue, has it not?
Mr. COWAN. Yes, sir.
Mr. MORSE. Of some $15,000,000?
Mr. COWAN. $15,000,000.
Mr. MORSE. What rate of interest do those bonds bear?
Mr. GOFF. Six per cent.
Mr. MORSE. Then the difference between 5 and 6 per cent, namely 1 per cent, you charge to the cost of production?
Mr. COWAN. Yes, sir.
Mr. MORSE. According to this paragraph?
Mr. COWAN. Yes, sir.
Mr. MORSE. When your bonds were sold to or underwritten by the banking interests, do you know what they netted you, what the net was?
Mr. COWAN. I don't know. Have you that information, Mr. Goff?
Mr. GOFF. Yes, sir.
Mr. MORSE. How much is it, Mr. Goff?
Mr. GOFF. Do you want the exact figure?
Mr. MORSE. About.
Mr. GOFF. The discount was a million and a quarter, something over a million and a quarter.
Mr. MORSE. How did you carry that discount on your books?
Mr. COWAN. We wrote it off at the end of 1916, isn't that right?
Mr. GOFF. That is right.
Mr. MORSE. So it was all written off in 1916?
Mr. GOFF. Yes, sir.
Mr. MORSE. The entire million and a quarter?
Mr. GOFF. Yes, sir.
Mr. CHASE. Operation or surplus?
Mr. GOFF. Surplus.
Mr. WHIPPLE. I believe, Mr. Cowan, that you said you could divide your assets so as to comply with the three classes that are called for in the rules and regulations. Is that true of every other feature of your business so far as your profits are concerned?
Mr. COWAN. I have not said that we could divide our assets in accordance with that, not on our books.

Mr. WHIPPLE. I mean that you could—it is possible to do it by figuration. You did not say that they were divided on your books, but you said that they could be, and that you had done so.

Mr. COWAN. We have done so in accordance with certain rules laid down by Mr. Chase and his associates.

Mr. WHIPPLE. I mean it has been decided that that is an equitable figure?

Mr. COWAN. Yes, sir.

Mr. WHIPPLE. You feel that it is such, and the representatives of the commission feel that it is. Is that true also of the profit and loss in each of these three divisions, can you determine the profit in each one of them?

Mr. COWAN. We can on our main plants, but it would be a very difficult job to determine that at our branch houses, where all of our various products go in together.

Mr. WHIPPLE. When you speak of branch houses on your consolidated form which you submit, are your branch houses included in this separate division of assets?

Mr. COWAN. Yes, sir.

Mr. WHIPPLE. You found it possible to divide the assets of your subsidiary companies and your branch houses?

Mr. COWAN. Under the ruling of Mr. Chase, yes.

Mr. WHIPPLE. You say you don't think that is possible with your profit and loss?

Mr. COWAN. It is possible, but it would be an exceedingly difficult job.

Mr. WHIPPLE. In other words, if part of your organization is not brought under this plan the same as your parent organization, why, you won't have a complete statement at the end of the period, will you; I mean, you won't have an accurate statement, by any means?

Mr. COWAN. Yes, we will, if our profits are divided on the basis of the division of the assets.

Mr. WHIPPLE. But you say you can not determine the profits for your branch houses in the three classes.

Mr. COWAN. I did not say that; the profit, as a whole, we always determine.

Mr. WHIPPLE. I did not say that. I said between the three classes called for in this regulation, can you determine the profit on class 1 in your branch houses?

Mr. COWAN. Oh, yes; we do that.

Mr. WHIPPLE. You do that?

Mr. COWAN. We do that now—divide that profit on the basis of the division——

Mr. WHIPPLE. You can accurately, for your entire organization, so divide your profits?

Mr. COWAN. Yes, sir.

Mr. WHIPPLE. As to come within the scope of this rule and regulation?

Mr. COWAN. Oh, yes.

Mr. WHIPPLE. Are the books of your home office kept in the same manner as the books of your branch offices?

Mr. COWAN. No, sir.

Mr. WHIPPLE. Wouldn't that be necessary to make the books of your branch offices uniform with those of your home office?

Mr. COWAN. It would be impossible entirely; that is, our branch houses—take the branches as a whole, they are a selling organization; it is a selling proposition entirely.

Mr. WHIPPLE. It is a selling proposition entirely?

Mr. COWAN. While the books of our parent company, of our producing plants, are a manufacturing and producing proposition.

Mr. WHIPPLE. How many producing propositions have you; just this one in Chicago?

Mr. COWAN. One in Chicago, one in Kansas City, one in New York, one in Oklahoma.

Mr. WHIPPLE. Are the books in New York run on the same plan and the same uniform system as the books in Chicago?

Mr. COWAN. The same as Chicago, yes; all of our packing plants are operated——

Mr. WHIPPLE. Then, between your various packing plants you would have no difficulty in keeping a uniform system all the way through?

Mr. COWAN. No, sir; we have a uniform system now.

Mr. WHIPPLE. Do you find that your business is such that any period smaller than a year, to judge the profits on the business for a period smaller than a year, would be equitable, or is it a seasonable business that has got to be determined by a year's study, the study of a year?

Mr. COWAN. I will answer that in two ways. In the first place, we do close our books always, we determine our profit every month, twelve times a year. With reference to it being a seasonable business, it is in some respects. We have our packing season, in which we accumulate large inventories, and then there comes a season when the inventories go down, when our stuff is cured and we sell it.

Mr. MORSE. It is true, Mr. Cowan, as you stated to me, that these periodical closings only show the book profits or book losses, on account of the methods of figuring inventories, and not knowing definitely what the cost of those inventories is?

Mr. COWAN. That is true.

Mr. WHIPPLE. Then you think that before the commission can fairly judge your business, that they should look at a year's business?

Mr. COWAN. I do.

Mr. WHIPPLE. Before deciding any point on it?

Mr. COWAN. I do, absolutely.

Mr. WHIPPLE. That was the point I tried to bring out.

Mr. MORSE. Mr. Cowan, do you think that a regulation based on the percentage of sales would be more easily computed and be more satisfactory all around than the present arrangement, something on the line or the same as the Canadian regulation is?

Mr. COWAN. I am not familiar with the Canadian regulation.

Mr. MORSE. It is based upon a percentage of gross sales, 2 or 2½ per cent, is it, Mr. Chase?

Mr. CHASE. Two.

Mr. MORSE. Two per cent.

Mr. COWAN. I understand that your question is as to whether it would be easier—more easily computed.

Mr. MORSE. And more satisfactory in view of the uncertainty as to what your profits are at any particular period.

Mr. COWAN. I would like to give that a little thought before answering it.

Mr. MORSE. May I suggest that you think it over and write a letter to Mr. Chase and tell him what your opinion on that is. Is that all right, Mr. Chase.

Mr. CHASE. Yes.

Mr. COWAN. I will do so.

Mr. WHIPPLE. Mr. Cowan, do you believe that the borrowed money in your business is entitled to the same rate of return as your own investment?

Mr. COWAN. Yes, sir.

Mr. WHIPPLE. And the accumulated earnings are entitled to the same return as the original investment?

Mr. COWAN. Yes, sir.

Mr. WHIPPLE. In order to determine the rate of this business, one thing I would like to ask you is, are there any extraordinary hazards in this business, I mean aside from fluctuations in the market, something which is uninsurable? In a great many businesses you have ravages of storms, floods, and cyclones.

Mr. COWAN. The great hazard in this business has always been the fact that our profits are perishable.

Mr. WHIPPLE. Aside from that feature of fluctuation in the market, there are practically no uninsurable hazards. Have you ever suffered any such?

Mr. COWAN. I think not.

Mr. WHIPPLE. You have not suffered any loss through them. I don't know that there is anything else here. On the rate of depreciation, do you think that that should be governed by a uniform rate for all companies, or do you think every company should be governed on its own case?

Mr. COWAN. You mean net, of course?

Mr. WHIPPLE. Yes.

Mr. COWAN. I don't think that a uniform rate for all companies would be any advantage. I think the uniform rate for the various classes of construction would be desirable.

Mr. WHIPPLE. You mean on the various types, just as you say on the various types of construction?

Mr. COWAN. Yes, sir.

Mr. WHIPPLE. That a uniform rate would be advisable?

Mr. COWAN. Yes, sir.

Mr. WHIPPLE. And how would you put that rate? You would have one rate for building, one for machinery, one for your other equipment?

Mr. COWAN. No; we compute ours on, I think, four types of construction, do we not, Mr. Goff?

Mr. GOFF. Five.

Mr. COWAN. Five types of construction. They have a separate rate on machinery——

Mr. MORSE. Do you recollect what that rate is, Mr. Cowan?

Mr. COWAN. What is our rate on machinery, Mr. Goff? Seven per cent?

Mr. GOFF. Eight per cent.

Mr. MORSE. What would the average be over your entire plant?

Mr. COWAN. I could not say.

Mr. GOFF. About 6.

Mr. COWAN. It would not run as high as that.

Mr. GOFF. Possibly not.

Mr. CHASE. 5.27 as I remember.

Mr. WHIPPLE. What method would you use, Mr. Cowan, for distributing the volume of your business over the various departments? Would it vary according to the different types of overhead?

Mr. COWAN. What is our method now, Mr. Knief?

Mr. KNIEF. We distribute it on the basis of four elements in our business, four large elements in our business, the accumulation of sales, value of inventory plus the value of plants pay roll, plus the construction and equipment value; those four elements in each department gives the distribution of overhead.

Mr. WHIPPLE. Would you recommend a uniform rate for all companies?

Mr. COWAN. I would.

Mr. WHIPPLE. You would say each company should distribute its overhead in exactly the same manner?

Mr. COWAN. Yes, sir.

Mr. WHIPPLE. Have you any Canadian interests?

Mr. COWAN. We have not.

Mr. WHIPPLE. I think that covers about all that we had lined up, Mr. Morse.

Mr. MORSE. Mr. Cowan, you have prepared a list of classifications which you think would be more equitable to the business as a whole than what now prevails, is that right?

Mr. COWAN. Yes, sir.

Mr. MORSE. Would you like to put that in the record?

Mr. COWAN. I would.

Mr. MORSE. This paper that I hold in my hand, was what you had prepared?

Mr. COWAN. Yes, sir. It is as follows:

WILSON & CO. (INC.)—DEPARTMENTS OPERATED.

[Arranged according to suggestion as to the way we think they should be made.]

Class 1.

Beef section:
- Beef.
- Beef cutting.
- Hide.
- Oleo.
- Smoked beef ham.
- Beef curing.
- Tripe.
- Beef casing.

Veal section:
- Veal.
- Calfskin.

Mutton section:
- Mutton.
- Pelt.
- Sheep casing.

Pork section:
- Fresh pork.
- S. P. pork.
- Barrel pork.

Class 1—Continued.

Pork section—Continued.
- D. S. pork.
- P. S. lard.
- Smokehouse.
- Boiled ham.
- Refined lard.
- Pigs' feet.
- Hog casings.

Miscellaneous:
- Freezer.
- Tongue.
- Tallow.
- Pickle trimming.
- Offal.
- Fertilizer.
- Sausage.
- Canned meat.
- Ice.
- Car lines.
- Cold storage.

Class 2.	*Class 3*—Continued.
Box factory.	Coffee.
Cooperage.	Animal food.
Printing.	Bedding.
Class 3.	Glue.
Condiment and preserve.	Soap.
Canned fish, fruit, and vegetables.	Curled hair.
Compound lard.	Animal oil.
Crude oil (must contain refined oils; no animal oils).	Tanning.
	Wool pullery.
Produce (butter, eggs, cheese, poultry).	Butterine.

Mr. MORSE. Is there anything else, Mr. Cowan, you would like to say on the general proposition of regulation of profits?

Mr. COWAN. Yes. I would like to make this suggestion in connection with interest which is chargeable to operation. If we borrow from a bank $100,000, the banker requests that we leave 20 per cent with him as a balance, from which we derive no benefit, and we would like to be allowed the interest on that 20 per cent. There is that part of our borrowed money that we derive no benefit from, and we think that we ought to be allowed that in addition to the 5 per cent.

Mr. MORSE. Do you contemplate doing any new financing?

Mr. COWAN. That is a matter——

Mr. MORSE. Have you discussed any new financing that you propose?

Mr. COWAN. We have not here. That is a matter entirely in the hands of our directors.

Mr. MORSE. You know nothing of any plans or talk of a plan of new financing?

Mr. COWAN. I know nothing about it.

Mr. MORSE. Is there anything else that you would like to say?

Mr. COWAN. Have I forgotten anything, Mr. Goff?

Mr. GOFF. I don't think so.

Mr. COWAN. I don't think of anything else, Mr. Morse.

Mr. MORSE. At this point I would like Mr. Chase to show you a figuration that we have, which he has made from the best sources at his command as to what profits you are allowed to make under these regulations, and what profits you will make under these regulations. Mr. Chase will explain the basis to you, and I would like to have your opinion as to whether you think that would be a fair basis, and whether you will make the profits that Mr. Chase has figured out?

Mr. CHASE. On the basis of these figures that I have prepared, Mr. Cowan, is it your opinion that you will be able to make the allowed profits? You have not made it, I see, in four months. Do you think that the balance of the year will bring you up to this 27 per cent?

Mr. COWAN. I think it is problematical, Mr. Chase.

Mr. CHASE. Not time enough to really determine?

Mr. COWAN. No, sir.

Mr. CHASE. You will note, Mr. Cowan, that the five companies here on their total percentage of profits allowed are not so very far off. You and Cudahy are a little better off than the others, but there are tremendous fluctuations between the classes. Have you any explanation for that?

Mr. COWAN. Not having seen the figures of the others, it would be pretty hard for me to say.

Mr. CHASE. Simply from your knowledge of what the others have in their various classes, you know in a general way whether they run tanneries, fertilizing plants, soap business, and so on?

Mr. COWAN. I would not venture any comment, Mr. Chase. It would only be a wild guess if I did.

Mr. CHASE. If it should appear that you can earn this allowed profit of 27 per cent during the coming year, is that amount greater or lesser than Wilson & Co. has earned heretofore?

Mr. COWAN. I would say that it is about in line with the last year, we will say.

Mr. CHASE. In your opinion is or is not that a reasonable profit under all the circumstances?

Mr. COWAN. I would say it would be a reasonable profit based on last year's experience, but conditions have so changed within a few months that it would be rather undesirable to venture a direct answer to your question for this year.

Mr. CHASE. Mr. Cowan, do you think that these figures based on four months' operation under the regulation are really of any significance to present to the President's meat commission as an index of allowed profits or actual earnings?

Mr. COWAN. Yes; I think they are.

Mr. CHASE. As an index?

Mr. COWAN. I think so.

Mr. CHASE. That is all.

Mr. MORSE. Now, Mr. Cowan, your business has increased to quite an extent over what it was in 1914 and 1915, along there; in fact, it has doubled, hasn't it, very nearly?

Mr. COWAN. No; it has not doubled.

Mr. MORSE. You have had a considerable increase, have you not?

Mr. COWAN. We have had a considerable increase.

Mr. MORSE. You had to spend considerable money in making additions to your plant, have you not, in order to take care of this increased business?

Mr. COWAN. We have.

Mr. MORSE. And in doing that you have not always been able to place your units in the exact position where you could operate as economically as you would if you did not have thrust upon you this enormous volume of business all of a sudden?

Mr. COWAN. That is true.

Mr. MORSE. So your operating expenses have increased and will increase in proportion to the more business you do and the more additions you have got to make; in other words, all the time you are becoming less efficient as far as operation is concerned and hence more costly; is that true?

Mr. COWAN. In answering that question let me say this: That the larger percentage of our increase in business has been in order to supply the demands of the United States Government and our allied Governments for war supplies.

Mr. MORSE. I don't think there is any dispute on that question. We all recognize that.

139888—S. Doc. 110, 66-1——8

Mr. COWAN. And those requirements have been thrust upon us, which we have had to necessarily meet in a hurry.

Mr. MORSE. You have done the best you could?

Mr. COWAN. We have been forced to increase in facilities under conditions which ordinarily would have been less expensive.

Mr. MORSE. But on account of methods, you have to spend more money in operation than if you had a gradual increase where you could provide for it and get more units of your plant where they would be more workable as a whole?

Mr. COWAN. That is true.

Mr. MORSE. I presume that that condition will increase right along as your business increases?

Mr. COWAN. I expect so.

Mr. MORSE. Yes.

(Whereupon at 3.15 o'clock p. m. a recess was taken until 4 o'clock p. m.)

AFTER RECESS.

Present on behalf of the Federal Trade Commission: Stuart Chase, Esq., Samuel W. Tator, Esq., Perley Morse & Co., certified public accountants, New York, represented by Perley Morse and P. S. Whipple.

Present on behalf of the Cudahy Packing Co.: E. A. Cudahy, president, and A. W. Anderson, secretary.

E. A. Cudahy was called as a witness and, being examined, testified as follows:

Mr. MORSE. Mr. Cudahy, you are familiar with the United States Food Administration meat division rules and regulations that have been in effect since November 1, 1917, are you not?

Mr. CUDAHY. I am generally, yes, sir. All of the details of them, of course, I might have to rehearse some of them, but in a general way.

Mr. MORSE. Generally, do you know what the provisions are, and what these regulations are supposed to try and accomplish?

Mr. CUDAHY. Yes.

Mr. MORSE. Have you any constructive criticism to offer regarding these regulations? Is there any way that you think they could be improved that would make them better and more workable both from your own standpoint and that of the Government?

Mr. CUDAHY. I should say it is the first attempt that is made at regulating the meat packers, and I think that it covers the situation fairly. They have tried to accomplish the stimulation of raising animals, also to keeping it within reason, and also limiting their profits to a very small percentage. So far as they have gone, I think they have done very well. There is great uncertainty about them, though. We may make a certain profit, but to-day we don't know what our profit is going to be the next six months. It all depends. They have the price-making power—they have taken it anyway—so there is that great uncertainty about it, and we don't know just where we stand.

Mr. MORSE. In these regulations the business is divided into three classes, namely, 1, 2, and 3?

Mr. CUDAHY. Yes.

Mr. MORSE. Have you any suggestion to make as to the justice of this classification—that is, of the business that comes in these classifications should there be a general switch of the subdivision in any class to another class.

Mr. CUDAHY. I think it is my understanding—I don't know whether it covers the entire plant—but it was my understanding it was to take the branches of the business that did not have 21 to 24 per cent of material animal products in them would be classified as class C. So that if carried out I think it would be perfectly fair.

Mr. MORSE. You had no suggestion for yourself of these classes, for instance; some of the business designated in class 1 should be transferred to class 2 or 3?

Mr. CUDAHY. Yes; we have.

Mr. MORSE. Some in class 2 be put in class 1 or class 3?

Mr. CUDAHY. We have some suggestions on that line. For instance, take as one our Old Dutch Cleanser; that has been put in class 3. We are in the glycerin business, we are refiners of glycerin; we make a very small percentage of crude; we buy it on the outside; we import a large quantity of it now from Habana, South America, and Mexico; there is very little of our own product in it; therefore we think it ought to be class 3; and our soap business has a very small percentage of animal fat, and we think that ought to be in class C. I think that is all, isn't it?

Mr. ANDERSON. We have made application to the Food Administration for the removal of everything which is now in class 2 to class 3, and stated our reasons. We were led to believe that that change would be made, but it has been slow in coming. We have had one or two departments removed from class 2 into class 3. One—our Old Dutch Cleanser—which has no connection at all with packing-house products, has been put into class 3. We have had produce put into class 3.

Mr. MORSE. What do you mean by produce?

Mr. ANDERSON. Butter, cheese, and eggs.

Mr. CUDAHY. Is that in class 3?

Mr. ANDERSON. That is in class 3; yes.

Mr. MORSE. You mean animal butter, not butterine or——

Mr. ANDERSON. Not butterine; no.

Mr. CUDAHY. We do not manufacture butterine.

Mr. MORSE. Butter from cream?

Mr. ANDERSON. Yes.

Mr. MORSE. Made from milk or cream?

Mr. ANDERSON. Yes; regular butter, cheese, eggs, and some dressed poultry. That has been removed into class 3, but as Mr. Cudahy stated, we have a glycerine business. Now, the proportion of animal fat that is used in the extraction of this glycerine is infinitesimal with us. Probably not more than 2 per cent of the entire glycerine that we sell is obtained from animal fat. We use up our own crude glycerine from our own soap works, most of which is obtained from vegetable fats, but in addition to that, as Mr. Cudahy stated there, we obtain crude glycerine from all possible sources, refine that, and take the total glycerine that we turn out—there is not more than 2 per cent at the outside, I think 1 and a decimal, some fraction, obtained from animal fat, that we know of, so we contend that that should be in class 3.

Mr. MORSE. What percentage of your business is your glycerine product?

Mr. ANDERSON. Well, not more at the present time than I should say one-half of 1 per cent. I don't think we sell more than a million dollars' worth of glycerine a year. Our sales are now running $250,000,000 a year, so it is a very small portion.

Mr. CUDAHY. I think it is more than a million dollars.

Mr. ANDERSON. Here for nine weeks we have sales of $304,000. That would be running on toward $2,000,000, but it may not hold up that way all the year round.

Mr. MORSE. Are there any other suggestions for changes from one class of business to another class?

Mr. CUDAHY. The soap business; that is a large business with us, about the same size as the glycerin, and we manufacture most of our soaps out of vegetable fats; we have a little animal fat, but the bulk of it is vegetable fats. We have made application and stated just the percentage of animal fats used, and we have not had a reply to that application yet.

Mr. MORSE. But the animal fats that are suitable for soap purposes, produced by you, you use them all up in your soap, do you not?

Mr. ANDERSON. We may not use them all——

Mr. CUDAHY. We use a very small percentage of our own.

Mr. MORSE. I mean the fats that your plant produces; those that are suitable for soap, you use it all yourselves?

Mr. CUDAHY. We do not use 10 per cent of it.

Mr. MORSE. What?

Mr. CUDAHY. We do not use 10 per cent, I should guess. We sell 90 per cent on the market.

Mr. MORSE. You sell 90 per cent on the market?

Mr. CUDAHY. Yes, sir.

Mr. MORSE. And you sell it to the other soap manufacturers?

Mr. CUDAHY. We sell it to Procter & Gamble, and anybody else that will buy it from us.

Mr. MORSE. Are there any other departments?

Mr. ANDERSON. We have a curled-hair department and a glue department, both of which we have made application to have transferred.

Mr. MORSE. What is the percentage of your glue business in respect to your whole business?

Mr. ANDERSON. I think this nine weeks we have only had sales of $47,000 worth of glue. That business varies.

Mr. CUDAHY. The sales will be about $700,000 in a year.

Mr. ANDERSON. It would be under a million, anyway.

Mr. CUDAHY. That is about it.

Mr. ANDERSON. So you can figure a million dollars.

Mr. MORSE. How about your hair?

Mr. ANDERSON. That is another department. We take this hair and we carry it through to make mattresses out of it.

Mr. MORSE. You have a mattress factory?

Mr. ANDERSON. We have a mattress factory.

Mr. MORSE. Do you use in your manufacture of glue all of the products that you extract through your packing business?

Mr. ANDERSON. Yes, sir.

Mr. MORSE. Or do you sell some of the material to other people?

Mr. CUDAHY. No; we use it all.

Mr. MORSE. You use it all?

Mr. CUDAHY. Yes; we use it all.

Mr. MORSE. Do you buy any of the products necessary to manufacture glue from other packers or outside?

Mr. CUDAHY. No, sir.

Mr. MORSE. For your own use?

Mr. CUDAHY. No; we do not make any purchases of glue stock.

Mr. MORSE. In regard to hair in that mattress factory, do you use all of your own product?

Mr. ANDERSON. No.

Mr. MORSE. Do you buy any on the outside?

Mr. ANDERSON. We have bought considerable on the outside.

Mr. MORSE. What percentage do you think you buy on the outside?

Mr. CUDAHY. In the first place, the mattresses are not made altogether out of hog hair. They use, I think, some hair that is bought from South America.

Mr. MORSE. Well, the fact remains that all the hair that you accumulate in your own business you use, and then you supplement that by any other hair bought from other sources?

Mr. CUDAHY. We do not use 5 per cent of the hair that we produce, in mattresses.

Mr. MORSE. You sell 95 per cent?

Mr. CUDAHY. We sell 95 per cent of manufactured hair to automobile manufacturers, mattress makers, around throughout the country for different uses.

Mr. MORSE. That which is of a better quality you sell to automobile manufacturers and other concerns to put in mattresses?

Mr. CUDAHY. No; there isn't any two of them that buy the same kind.

Mr. MORSE. As a general proposition you use inferior grades of hair in mattresses?

Mr. CUDAHY. No; we use the best.

Mr. MORSE. You use a different class of hair, I say, for the manufacture of mattresses from what you sell to the automobile manufacturers?

Mr. CUDAHY. No; we do not. We use just as good hair for mattresses as we sell; in fact, all hog hair is all about the same. The only distinction in hog hair is one is winter and the other is summer.

Mr. MORSE. Those two grades?

Mr. CUDAHY. That is the only distinction there is.

Mr. MORSE. Are there any other departments that you would like to see changed around between these three classes?

Mr. ANDERSON. There is what we term animal food. That is another small department. We prepare the stock feeds from tankage, and we have also made application for that to be removed to class 3.

Mr. MORSE. What proportion of your business are these animal feeds?

Mr. CUDAHY. Very, very small; 3,000 tons.

Mr. ANDERSON. That is a very small proportion of the entire business?

Mr. CUDAHY. Yes.

Mr. ANDERSON. It would not run to much more than 1 per cent of the entire business.

Mr. MORSE. Are there any other departments?

Mr. ANDERSON. We make pepsin and extract of beef. We figure that those should be transferred to No. 3, for the reason that they have nothing in common with the ordinary packing-house departments. It is stuff that has got to be well advertised and sold by a specialty force.

Mr. MORSE. What is the general reason why you think these transfers should be made from class 2 into class 3?

Mr. ANDERSON. Take extract, for instance, that is recovered from soup, secured in the cooking of meats. That is practically found money; that stuff would have gone into the tanks if we did not have that extract department. It has got very little value as it comes as soup, but the labor of concentrating it, getting it down to the proper stage of sale as an extract, and the expense of putting it up in a high-grade package and packing it, making it presentable, and then advertising it and selling it, takes it altogether apart from the animal products which it came from originally. It is stuff that is worth from a dollar to two dollars or more a pound when we market it.

Mr. CUDAHY. I think some things like the soap business, the glycerin business, and also the Dutch Clenser business, should be treated differently, because it hasn't any animal product in it.

Mr. MORSE. May I ask what is the basis of Old Dutch Cleanser?

Mr. CUDAHY. About 85 per cent mineral.

Mr. MORSE. What is the rest?

Mr. CUDAHY. Soap, made from vegetable oil; but all these different businesses that we are in, we have to go in competition with soap makers, we have to go in competition with cleansers, and our competition is outside of the packing business altogether, it is in another line of business altogether.

Mr. MORSE. Then as I understand it, Mr. Cudahy, you feel that these other lines of business outside of the packing business, making the same kind of a product as you do, should be regulated if you are regulated?

Mr. CUDAHY. We ought to be on the same basis that they are. If we are manufacturing soap, why we ought to be in the same basis, because even though we take our product, if we have any of our own products from our houses, it has got to be charged up to the soap factory at the market price. Our selling expenses and our overhead expenses have got to be correctly charged up to that department, and we want to know where we stand in regard to profit in that particular department.

Mr. MORSE. But without doubt you can compete with any outside concern—that is, a concern outside of the packing industry—where you use all of your own by-products in the article that you manufacture, can you?

Mr. CUDAHY. Yes.

Mr. MORSE. You have no fear of outside competition in cases of that sort?

Mr. CUDAHY. In soap, do you mean?

Mr. MORSE. I did not specify soap. I want any case where you use up all of your own commodities, your own by-products in making your article, you have no fear of any competition on the outside?

Mr. CUDAHY. No; we are able to compete with them.

Mr. MORSE. Even if you were regulated in regard to the profits?

Mr. CUDAHY. You mean if the soap business was regulated on the same basis?

Mr. MORSE. I did not mention the soap business in that connection. For instance, you take the by-products that you use entirely yourself in making some article that you manufacture, like glue, or something of that kind, or butterine, if you make it?

Mr. CUDAHY. We do not make butterine.

Mr. MORSE. You would not fear competition there, would you, where you use all the products yourself from your own processes?

Mr. CUDAHY. No; where we put in our products into any department of that kind, we put that in at the market price, and therefore we would be able to compete with any outsider.

Mr. MORSE. Have you any more suggestions to make on changes?

Mr. CHASE. May I ask a question?

Mr. MORSE. Certainly.

Mr. CHASE. About the beef extract. Whom do you sell that to, Mr. Anderson, in the beginning?

Mr. ANDERSON. I could not answer that question.

Mr. CUDAHY. We sell quite a little of it in small packages. It goes to the grocer and the distributor, but for the last—this year, anyway, we have sold most of it in a wholesale way. We sell it to England and we sold some to go to Italy in bulk—that is bulk goods.

Mr. CHASE. Would it be used for war purposes, to go to hospitals?

Mr. CUDAHY. Yes; where that is manufactured, it us put up in small packages.

Mr. MORSE. Mr. Cudahy, your balance sheet as published by you for the end of your fiscal year 1917 shows net fixed assets of a little over $14,000,000?

Mr. CUDAHY. Fixed assets; yes.

Mr. MORSE. That is, by fixed assets I mean your plant and machinery and real estate and the like.

Mr. CUDAHY. Yes.

Mr. MORSE. Now, there is no doubt but what that is your book value—that is, the value shown on your books, but do you consider it to be the real value of those assets?

Mr. CUDAHY. I think it is much below the real value.

Mr. MORSE. On what basis?

Mr. CUDAHY. It would be entirely below on the present basis.

Mr. MORSE. By present basis you mean the present value of 1918?

Mr. CUDAHY. Yes.

Mr. MORSE. How was this valuation determined; how was it arrived at?

Mr. ANDERSON. It was arrived at mainly by cost; in some cases by an appraisal made by the American Appraisal Co. in 1907.

Mr. MORSE. Did the American Appraisal Co. make an appraisal of your plant in 1907, by plant meaning, of course, the real estate, buildings, and machinery?

Mr. ANDERSON. Yes, sir.

Mr. MORSE. They made a complete appraisal, and the amount of that appraisal was set up on your books at that time?

Mr. ANDERSON. It was set up subsequently.

Mr. MORSE. When was that; what date?

Mr. ANDERSON. Some time in 1916.

Mr. MORSE. For the appraisal in 1917?

Mr. ANDERSON. In 1907.

Mr. MORSE. You had this report of theirs, and when you saw fit, which was in 1916, you set the value up on your books; is that right?

Mr. ANDERSON. Yes. The reason for that was this: We did not intend at first to set it up. We borrowed some money and issued a mortgage on our plants, and the auditors at that time furnished the trustee under the mortgage with the values as appraised, and we ran along that way, having to keep a record of everything to the trustee, and when we had to borrow some more money in 1915, I think it was, we got our books in line with the appraisal on the recommendation of our auditors.

Mr. MORSE. In setting up this $14,000,000 at that time did you take into consideration that between 1907 and 1915 there was considerable depreciation?

Mr. ANDERSON. We did. As a matter of fact, in 1908, I think, the audit was made. There was a difference of approximately 2,000,000 in the figure. When we made the adjustment in 1916 we had only a difference of about $700,000; in fact, the adjustment in our book figure and the appraisal figure merely increased $720,000.

Mr. MORSE. What do I understand, then, was the value of the appraisal in 1907 as arrived at by the American Appraisal Co.?

Mr. ANDERSON. The exact figure of that appraisal?

Mr. MORSE. Yes; or approximate; I don't care.

Mr. ANDERSON. It was about $2,000,000 more than our books showed at that time.

Mr. MORSE. What I want to arrive at is, what is the difference between the book value now, as shown by your books, and the amount of this appraisal?

Mr. ANDERSON. Allowing for proper depreciation from 1907 down to date?

Mr. MORSE. What depreciation did you take there?

Mr. ANDERSON. The rates were 2 per cent on buildings and I thing 3½ per cent on machinery. The rates were given us by——

Mr. MORSE. Per annum?

Mr. ANDERSON. Yes.

Mr. MORSE. Then the rates were given you by whom?

Mr. ANDERSON. By Price-Waterhouse, who made the data, and the adjusting entry was made by Arthur Young & Co., so that we have——

Mr. MORSE. I notice here the assets in your inventory at the end of your fiscal year 1917 amount to about $32,000,000. On what basis are those inventories computed?

Mr. CUDAHY. The supplies were figured at cost and the product was figured at what we figured that we would be able to realize on it.

Mr. MORSE. That is, at the market?

Mr. CUDAHY. Well, it is sometimes hard to determine just exactly what the market is. Those goods are not sold sometimes.

Mr. MORSE. You being familiar with the business and knowing conditions throughout the country, you placed the price on those which you thought that you could realize on, is that it?

Mr. CUDAHY. That is it. The market value is uncertain. We have always taken what we considered a very conservative inventory. We do not want to go into the next year facing any possible loss. For that reason we have always taken an inventory that we think is on a conservative basis. Sometimes it might show over what might be realized, sometimes it might be a great deal under, but I think our inventory on last year was on what I consider a very conservative basis.

Mr. MORSE. In other words, Mr. Cudahy, there is a possibility there of there being a profit or a loss in that inventory?

Mr. CUDAHY. Yes, sir.

Mr. MORSE. Whichever way you happen to figure it?

Mr. CUDAHY. Yes.

Mr. MORSE. That is, if you figure it at less than what you finally sell it for, or less than the inventory cost, it is loss?

Mr. ANDERSON. Yes.

Mr. MORSE. If you sell it for more than what you figured on or above cost you have a profit there?

Mr. ANDERSON. Yes.

Mr. CUDAHY. Yes.

Mr. MORSE. That is the proposition.

Mr. CUDAHY. I think that we had a considerable profit in our last year's inventory.

Mr. MORSE. Isn't this the fact in the meat-packing business, in your slaughtering of animals, there may be a demand for fresh meat or something, and you will use the product the demand is for, and you will accumulate a lot of by-products, we will call them, and you will have no market for them and you have to keep them sometimes maybe for a week, or a month, or six months, or a year, or longer until the market is so that you can work those by-products up into some commodity and sell them and secure your profit; isn't that true?

Mr. CUDAHY. No; not in our case. We scarcely ever accumulate any line of by-products. We may sometimes have to carry some glue if there is no market for glue; we may have to carry some hair, but our accumulation of stock is principally of the main products—ham, bacon, dry salt meats, canned goods.

Mr. MORSE. You will accumulate products of that kind?

Mr. CUDAHY. Yes.

Mr. MORSE. That there is not a good market for you hold them over for a better market?

Mr. CUDAHY. No; we have to keep them in order to cure. It takes 90 days to turn a ham out and get your money for it—not exactly 90 days—it takes 75 days, varies from 60 to 75 days, according to the size of it; and dry salt meat, 30 days, 40 days. Sometimes there is no demand for some particular cut, and we might have to carry that a little longer, but it is not with a view of speculating.

Mr. MORSE. I did not mean it in that way. I am talking from an economic standpoint purely now.

Mr. CUDAHY. I thought maybe you thought we would accumulate products for the purpose of speculating.

Mr. MORSE. No; get that out of your mind. I simply thought that things of that kind might be necessary in a business of the character that you conduct.

Mr. CUDAHY. Of course, if there is not a sale for your product, you can not sell it at all, at any price.

Mr. MORSE. You will have to keep it until there is a market, or a demand.

Mr. CUDAHY. Until we can find a customer.

Mr. MORSE. That is what I mean.

Mr. CUDAHY. Yes, sir; until we can find a customer.

Mr. MORSE. And that is perfectly legitimate.

Mr. CUDAHY. We do not accumulate any by-products, though.

Mr. MORSE. In view of these facts, Mr. Cudahy, isn't it true that any profit statement that you may get out is not absolutely true, as a matter of fact, as a matter of necessity, because the inventory controls the profit or loss, and you might have profit or loss in your inventory, and you would not know it until you finally realized on the goods or on the product that is in that inventory? You might take any price at the market; you might get less than the market, or you might get more; isn't that true?

Mr. CUDAHY. Well, generally; or it might be true in some instances; but I think our inventories as a rule are such that we realize on them.

Mr. MORSE. I am not saying that they are not, but what I say is this: That you do the best you can, but when you set a profit it is not a definite profit to you, is it, at the time you set it?

Mr. CUDAHY. Of course, we have to realize on the product, and there is some uncertainty about what we have in stock, but I think Mr. Anderson will bear me out that we come out about even on that.

Mr. MORSE. The same thing is true when you transfer a product from one department to another, when you transfer at the market price you get the best market price, that is the highest market price you can find when you make the transfer, but on account of these conditions that we have talked over, there may be a profit, there may be a loss there, and you can not tell until you finally dispose of the product and get the money.

Mr. CUDAHY. The only thing we would be interested in is soap, we turn over a small amount, and, of course, we have to compete with other concerns engaged in that business just as if we did not have any other business and that business is only subject to a trade condition. The other manufacturers have bought their products on the same basis that we have.

Mr. MORSE. Coming back for a moment to the valuation, I think you stated that you consider the present value of your plant greater than that shown on your books.

Mr. CUDAHY. Yes, sir.

Mr. MORSE. Has that been discussed pretty generally among your officers and do you think you ought to write that up to its present value?

Mr. CUDAHY. I think we ought to—not probably to the extreme value, but I think our values are much below what they ought to be.

Mr. MORSE. How much do you think they are below now?

Mr. CUDAHY. We have not had any appraisement, or at least, we have had an appraisement on our Wichita property, but we have not got the result of that, have we?

Mr. ANDERSON. No.

Mr. CUDAHY. It would be pretty hard for me to make an estimate on anything accurately. It would only have to be just a guess.

Mr. MORSE. Are you considering making application to competent authorities to make that increase at the present time?

Mr. CUDAHY. I am.

Mr. MORSE. You have not done it?

Mr. CUDAHY. I have not done it yet; no, sir.

Mr. MORSE. Have you any fixed sum in your mind that you think you ought to increase the value?

Mr. CUDAHY. No; that is, it would only be a guess on my part. I can give you the valuation when we get it of the Wichita property, if you wish.

Mr. MORSE. It would be too late for the purposes of this investigation. We have to report in Washington on June 21. How soon can you have it?

Mr. ANDERSON. We can have it by the 20th.

Mr. MORSE. I would suggest, Mr. Anderson, that if you have it as early as that, that you hand it to Mr. Chase. Mr. Chase, I think, leaves Chicago for Washington——

Mr. CHASE. The 20th.

Mr. MORSE. That can be considered in discussion down there.

Mr. CUDAHY. I will probably have that.

Mr. MORSE. Do you know what basis this appraisal company are using on your Wichita property?

Mr. CUDAHY. I think they are using 1914, 1915, and 1916 values; maybe, 1917.

Mr. MORSE. Replacement or cost or what?

Mr. CUDAHY. Replacement.

Mr. ANDERSON. We are getting that made out this way, getting it first of all on present values. Then we are working back to a prior date in which we are interested.

Mr. MORSE. Did you take the same depreciation on your property in 1916 and 1917 that you had heretofore, what was it, 2 and 3 per cent?

Mr. ANDERSON. That was prior to 1916 that we had that. In 1917 we raised our rate on machinery to 7½ per cent.

Mr. MORSE. 7½ per cent?

Mr. ANDERSON. Yes, sir.

Mr. MORSE. What on your buildings?

Mr. ANDERSON. The same figures, 2 and 7½, and on machinery we made a little change on some branch-house depreciation which would not affect it very much, because we found them a little lower.

Mr. MORSE. Mr. Cudahy, you have occasion in your business to borrow a good deal of money, do you not?

Mr. CUDAHY. Too much. I think so, and the bankers think so.

Mr. ANDERSON. I wanted to verify that previous depreciation. Now, I think I said 3½ on machinery. I believe it was 5, but I will check that up.

Mr. MORSE. Yes. Do you know the average rate you paid for borrowed money from November 1, 1917, to date?

Mr. ANDERSON. It is along about 6¼.

Mr. CUDAHY. I think you had better make it 6 per cent, I should guess.

Mr. MORSE. In the Government regulations on page 7 under the item of interest, is provided that any excess payment over 5 per cent will be charged to operating expense or to cost of production. I presume that you have been taking advantage of that clause?

Mr. ANDERSON. Yes.

Mr. MORSE. Are you contemplating any new financing, issuing bonds or stocks, anything like that?

Mr. CUDAHY. I know we want considerably more money in our business, and I am trying to find out a way to get it.

Mr. MORSE. I believe that is rather fashionable since Armour started it. Are you contemplating anything of the kind?

Mr. CUDAHY. Yes; but I don't know what we can do yet; but if I can do it on a satisfactory basis, I am willing to increase our capital.

Mr. MORSE. If it is a proper time to do it, and you can do it, you are going to do it, is that right?

Mr. CUDAHY. Yes.

Mr. MORSE. Whether by issuing bonds or preferred stock, you have not yet decided?

Mr. CUDAHY. No; I have not.

Mr. MORSE. You have not gone that far, I presume?

Mr. CUDAHY. No.

Mr. MORSE. You will be guided a great deal by the success of Armour & Co.?

Mr. CUDAHY. I will be governed by it, of course.

Mr. MORSE. Of course, that is a criterion.

Mr. CUDAHY. Yes; that is a fact.

Mr. ANDERSON. I would say, Mr. Morse, that our depreciation rates prior to 1917 were 2 per cent on buildings, 5 per cent on machinery. I want to correct the other figure I gave.

Mr. MORSE. I notice in your balance sheet, Mr. Cudahy, that you already have a bond issue of about $8,750,000. When was that issued?

Mr. CUDAHY. It was December, 1916—some time—I don't know exactly.

Mr. MORSE. How much did that net you per cent?

Mr. CUDAHY. 5¾.

Mr. MORSE. How much per cent did that net you on par?

Mr. CUDAHY. On par?

Mr. MORSE. How much per cent did it net you on par? For instance, you did not have those bonds underwritten at par, you probably——

Mr. CUDAHY. I had them written at 95¾.

Mr. MORSE. And the difference between 95¾ and par——

Mr. CUDAHY. They were callable at 102½.

Mr. MORSE. What disposition did you make of them?

Mr. ANDERSON. We amortized that over the life of the bonds.

Mr. CUDAHY. Thirty years.

Mr. MORSE. You have been charging such amortization annually into your cost of production, have you not?

Mr. ANDERSON. Yes.

Mr. MORSE. What is the interest on those bonds?

Mr. ANDERSON. Five per cent.

Mr. MORSE. You can not charge any cost of interest at all to cost of production there, can you? Do you consider, Mr. Cudahy, that the packing business is extraordinarily hazardous in any particular?

Mr. CUDAHY. Yes; I do.

Mr. MORSE. In what respect?

Mr. CUDAHY. On account of the fluctuations.

Mr. MORSE. You mean fluctuations in prices?

Mr. CUDAHY. Fluctuations in prices.

Mr. MORSE. Isn't that an ordinary risk in business?

Mr. CUDAHY. I think in our business it is really greater.

Mr. MORSE. How is that?

Mr. CUDAHY. Well, there are so many things that enter into it—supply and demand—the demand as affected by general business conditions.

Mr. MORSE. Isn't every business affected that way?

Mr. CUDAHY. And then, besides that, other business men can regulate their stock just as they wish to—just as the demand is.

Mr. MORSE. Can't you regulate your stock? You don't purchase more cattle than you need at any time, do you?

Mr. CUDAHY. We purchase——

Mr. MORSE. You don't keep a stock of cattle on hand, do you?

Mr. CUDAHY. We keep a lot of products.

Mr. MORSE. I know; but when you have too much product on hand you simply shut off purchasing, don't you—purchasing cattle?

Mr. CUDAHY. What would become of the cattle if we did not? All the cattle and all hogs in the market are purchased every day. If we did not, they would not know what to do; they would not know where they were.

Mr. MORSE. Do you mean to tell me that you keep on purchasing cattle whether you have a demand for the product or not?

Mr. CUDAHY. That is what we do. We purchase everything that comes into the market every day, both hogs, cattle, sheep, and calves.

Mr. MORSE. That affects the price; the price would be lowered, would it not?

Mr. CUDAHY. If we did not buy?

Mr. MORSE. Suppose, for instance, you have a lot of products on hand and it is not moving as readily as it ought, you would not make an offer to purchase cattle and pay the price for those cattle that you would if your product was short and you needed it to supply a demand, would you?

Mr. CUDAHY. We have to buy our stuff on the market; we have to pay for it the same as the rest of the people; we have to keep our establishment going. We can not shut down; we can not let our men go; we can not get disorganized. The stock comes to market and it has got to be sold, it is going to be sold, and we have to buy it.

Mr. MORSE. You would not pay the price for it?

Mr. CUDAHY. We have to pay the market price.

Mr. MORSE. The market price might not be the price that—it would not be as much as if there was a great demand for cattle on account of products being short in the packing houses.

Mr. CUDAHY. It does not apply to cattle so much as it does to hog products. There is never a very big lot of beef products on hand. The cattle coming to market are bought, killed, shipped, and sold, they are consumed.

Mr. MORSE. In the recent past has there been any large amount of hog products on the market?

Mr. CUDAHY. Yes; there have sometimes been big accumulations as there are at the present time.

Mr. MORSE. Not in the past three or four years.

Mr. CUDAHY. Stocks are very heavy now. I think the stocks at the present time are something like 20 per cent heavier than they were this time last year.

Mr. MORSE. What is the reason for that?

Mr. CUDAHY. The supply.

Mr. MORSE. You mean the supply is only——

Mr. CUDAHY. The supply has been pretty good and the demand has not been very good. The domestic trade has been light, particularly the southern trade has been light on account of their local raising of hogs; local supply.

Mr. MORSE. But you do not know of any other reason why the beef industry or the packing industry, I should say, is particularly hazardous?

Mr. CUDAHY. Well, it is hazardous because we have to buy cattle when they come to market.

Mr. MORSE. I mean compared with some other lines of business?

Mr. CUDAHY. We are dealing in perishable property when we are dealing with beef.

Mr. MORSE. I know; but your refrigeration is perfect.

Mr. CUDAHY. I know it is perfect, but at the same time there is a limit to the time that we can carry it. It has to be sold when it gets down East.

Mr. MORSE. You have no losses on your cattle, have you?

Mr. CUDAHY. We sell it at a price—sometimes we sell it at a good price, sometimes at a loss.

Mr. MORSE. But usually there is no big loss or unusual loss, is there?

Mr. CUDAHY. You mean beef products?

Mr. MORSE. I mean the entire packing industry.

Mr. CUDAHY. I have always considered it a very hazardous sort of a business on account of the very heavy fluctuations in the market values.

Mr. MORSE. You have never had any losses on account of floods or fires, or something that you could not insure against?

Mr. CUDAHY. Yes; we had a million dollar loss in Kansas City on account of a flood.

Mr. MORSE. When was that?

Mr. CUDAHY. 1903. In 1904 we have over $100,000 loss, and in 1905 we had a loss of over $100,000 there, considerably over that.

Mr. MORSE. That is a million and a quarter loss?

Mr. CUDAHY. Yes.

Mr. MORSE. You have not had any since?

Mr. CUDAHY. Yes; we had an explosion at Kansas City that cost us about $150,000.

Mr. MORSE. What was the cause of that explosion?

Mr. CUDAHY. Gas; leaky pipes.

Mr. MORSE. You haven't had any fires that were disastrous on account of not having insurance?

Mr. CUDAHY. Yes; we have had some. We had a loss in Omaha. What year was that hog house burned down? That was about 1916, $150,000 loss, wasn't it?

Mr. ANDERSON. It was over $100,000.

Mr. CUDAHY. We had a tornado loss of about forty or fifty thousand dollars at Omaha.

Mr. MORSE. Those are very small in proportion to the size of your business.

Mr. CUDAHY. Not so small. Every little counts, you know. That is the way we have to make our profit.

Mr. MORSE. You would not consider this compared with other business a particularly hazardous business?

Mr. CUDAHY. I do, yes; absolutely.

Mr. MORSE. I mean to tell you that I do not.

Mr. CUDAHY. If you were sitting in this chair for about 25 or 30 years, you would not think so.

Mr. MORSE. I am basing my opinion on having examined different lines of business that really have hazards, something they can not control, it is impossible, while with you it seems to me that the things that happen to you are things that you may prepare against, and they are so small that they do not affect the business much one way or the other.

Mr. CUDAHY. I can show you that in 1914 we had an actual loss in our business on meat.

Mr. MORSE. Which you made up on your products?

Mr. CUDAHY. No; we made it up on the Old Dutch Cleanser, which is not made from a by-product. In 1911, 1912, and 1913 our business showed very, very little profit.

Mr. MORSE. In view of the uncertainty in determining profits under the present Government regulations, on account of the apparent necessity of taking losses or profits in the inventory before the goods are disposed of, would you favor some other basis of regulation? For instance, the Canadian regulation, which provides for 2 per cent on sales.

Mr. CUDAHY. I would not favor 2 per cent. I think——

Mr. MORSE. I don't want to have you think that I want to have you say that you favor 2 per cent or any other per cent. I would like to put you on record though, as rather favoring a plan of that kind at some per cent on gross sales, as a method that could be more easily checked up and probably save you trouble, and everyone else concerned. My reason for asking that question is that it is pretty well acknowledged on account of the way inventories apparently have to be figured that it is very hard to determine what your profits are at any stated period, because there will be profits on your inventory, or there will be losses, it works both ways.

Mr. ANDERSON. Your system of a basis of percentage on sales would leave that question still open, would it not?

Mr. MORSE. It would not, unless there is a limitation put on your profits.

Mr. CHASE. It is the same problem exactly. There is an allowed profit, an actual profit. The actual profit always has an inventory which has to deal with——

Mr. MORSE. The inventory is a factor, no doubt about that, and it is a question whether the basis of a percentage on sales or the present basis on invested assets, as to which is best.

Mr. CUDAHY. The objection I see to a percentage basis is that it might increase competition, unless there is some regulation as to the amount of business that each house should do, and in that way we might run into very high prices, unnecessarily high.

Mr. MORSE. I take it, you have not given that question very careful consideration, you have not had time to do it, unless you have considered it before this conversation.

Mr. CUDAHY. Well, not seriously, but that would be the great objection I would see to it. Everybody would try to see how much business they could do, the more sales they would make, the more they would get, and it would result in running prices to an unreasonable basis.

Mr. MORSE. But if there is a limit to the profit——

Mr. CHASE. No limit under that scheme, the more you increase your turn-over the more your profit.

Mr. CUDAHY. I think it would work a great hardship on some houses.

Mr. MORSE. You seem to think the present regulations are best, provided a scheme of cost and valuation could be found that would be equitable?

Mr. CUDAHY. Yes; I think the present basis works out a fair percentage of profits. Our figures show about 2 per cent so far.

Mr. MORSE. When I say cost, of course, I mean so the inventory could be valued at cost, and so that the transfer could be made at cost instead of at the market.

Mr. CUDAHY. All of our by-products had been transferred at the market price that we show at the end of the inventory.

Mr. MORSE. The inventory, then, ought to be stated at cost?

Mr. CUDAHY. No; as it is worked now, the most important thing about it is to see that—I mean for the Government, and also for anybody that is trying to carry out the regulations—is to see that the transferring of by-products to other departments is done at the market price, and that the cost, selling, and overhead expense are properly distributed, and if that is done I think our present arrangement is very fair.

Mr. MORSE. What is your basis of distributing overhead expense?

Mr. CUDAHY. Mr. Anderson will have to tell you that.

Mr. ANDERSON. We have got several bases. For instance, the overhead at our plants, such as superintendence, and so on, is divided on the labor pay-roll basis. Other expense, like insurance and taxes, at our plant are divided on the basis of value covered; and all overhead that pertains to selling is divided on a sales basis, or value of sales, so we have virtually three distributions that we make.

Mr. MORSE. What do you do with general administration?

Mr. ANDERSON. The general expense is divided up as between selling and manufacturing—one-third manufacturing, two-thirds selling.

Mr. MORSE. Would you be in favor of a uniform scheme of distributing overhead in all packing plants?

Mr. CUDAHY. There is only one thing about it—we think ours is right. We have worked on it for a long time. We think it is right, but if anybody can show us a better plan, or more equitable, we are willing to take it.

Mr. MORSE. Don't you think, as a general proposition, if you distributed overhead cost in a uniform manner that it would be more just to all of you, and everyone concerned in the proposition?

Mr. CUDAHY. I think it would work out all right; no doubt it would be properly distributed.

Mr. MORSE. You think the same thing is true as to depreciation—a uniform scheme of depreciation?

Mr. ANDERSON. I think that should be done. I think we should have a uniform scheme of depreciation. Of course, one packer might have an older plant than another, requiring a higher rate possibly, but I think a uniform system could be arrived at by consultation.

Mr. MORSE. A scheme might be worked out?

Mr. ANDERSON. It could be worked out.

Mr. TATOR. Mr. Morse, I am interested in what Mr. Cudahy said about regulation—that regulation by a certain per cent on sales might cause some unnecessary competition—that is what you meant, is it?

Mr. CUDAHY. Yes.

Mr. TATOR. I know the packers pretty well—the five big packers, now—and I would be interested to know who you would put in certain classes there, as to competition, if it would be between the big packers, or as between the big packers and the so-called small packers?

Mr. CUDAHY. It might be anybody—it might be everybody that is in the business.

Mr. TATOR. How would it be unfair to either of those groups if they were all on the same basis?

Mr. CUDAHY. One house might have a different policy. They might want to extend their business.

Mr. TATOR. What harm would that do, if they all wanted to, why wouldn't that be a fair policy, if they were willing to go after the business?

Mr. CUDAHY. It is not fair policy, because it might result in working a great hardship on some of the smaller houses.

Mr. TATOR. Do you refer now to the packers other than the Big Five, when you say the smaller houses?

Mr. CUDAHY. I don't know whether we are the Big Five or not. I am not as big as some of them. I don't know whether I belong in that class or not.

Mr. TATOR. You would not want to be put on the same basis of 2 per cent, for instance, with Armour and Swift?

Mr. CUDAHY. Well, I don't see how you could regulate it very well and have one packer upon one basis and another packer on another, but I think that 2-per-cent limit on sales, or any other percentage, that it might work a great hardship on some of the houses.

Mr. MORSE. Some of the smaller houses?

139888—S. Doc. 110, 66-1——9

Mr. CUDAHY. Yes, sir; some of them might have facilities that they could make that 2 per cent, and they might be willing to do it for less.

Mr. TATOR. It amounts to the same thing. When you put it on the investment basis, it is only a test of how efficient they are really in comparison with each other, whether they are on an investment basis, or on a 2 per cent selling basis?

Mr. CUDAHY. I don't think there is the same incentive to spread out.

Mr. TATOR. My own idea would be——

Mr. CUDAHY. Two per cent is something that if you fix that percentage we are going to make a lot of profit, and if a concern is operating on a percentage basis, it would be a sure thing, and it would be something for him to work for.

Mr. TATOR. He would not have anything more fixed than he has now.

Mr. CUDAHY. There isn't anything fixed about the business——

Mr. TATOR. There isn't anything fixed about 2 per cent on sales; he would have to make it if he could.

Mr. CUDAHY. Yes.

Mr. TATOR. Therefore, if he could not make his 2 per cent on sales or did not care to make it, but wanted business now with the 9 per cent regulation, he could make 9 per cent.

Mr. CUDAHY. There has not been that tendency.

Mr. TATOR. Why do you think there will be a tendency when there has not been any?

Mr. CUDAHY. That is just my opinion, that is all.

Mr. TATOR. I am interested in knowing just what you had in mind there.

Mr. CUDAHY. I think that would be the tendency, to do it. I think everybody would want to increase their business.

Mr. WHIPPLE. For the purpose of these regulations, do you believe that it is possible to segregate your business, your assets and your profits into these three different classes which have been laid down by——

Mr. ANDERSON. Absolutely.

Mr. WHIPPLE. Your stock can be determined, so that you can determine the investment in any one class?

Mr. ANDERSON. I think we have already done so.

Mr. WHIPPLE. You feel that the profits can likewise be segregated?

Mr. ANDERSON. I haven't any doubt of it.

Mr. WHIPPLE. That view of the business does not show on your books at the present time; that would have to be a separate calculation?

Mr. ANDERSON. Separation in classes 1, 2, and 3?

Mr. WHIPPLE. Yes.

Mr. ANDERSON. Slightly modified, very few changes to be made. We have the reconciliation to present at any time that it is required.

Mr. MORSE. In other words, your books do not take the division of capital in these classes, or the profits, but you have some kind of a statistical record where you have arrived at that.

Mr. ANDERSON. Our books show each department that we carry. Those departments are placed in class 1, 2, or 3, with the exception of one or two departments, small departments, where we have not made a differentiation between classes, or between products, we can show it.

Mr. MORSE. You think it is entirely possible, though, to carry out these regulations?

Mr. CUDAHY. I am sure of it in our case, because we have not got so many of them. Our Old Dutch Cleanser is absolutely separate. Our plant is located away from the packing plant and it——

Mr. MORSE. Is that a separate corporation?

Mr. CUDAHY. No; but we always keep it separate, because the man that runs that department shares in the profits.

Mr. WHIPPLE. You have, I think, some branch houses through the country, subsidiary corporations throughout the country?

Mr. ANDERSON. Yes.

Mr. WHIPPLE. Is there any slaughtering business at those branch houses, or are they merely distributing centers?

Mr. CUDAHY. Distributing centers.

Mr. WHIPPLE. Is your only slaughtering house in Chicago?

Mr. CUDAHY. No; we haven't got any here in Chicago.

Mr. WHIPPLE. Where is your slaughterhouse?

Mr. CUDAHY. Kansas City, Omaha, Sioux City, Wichita, Salt Lake, and Los Angeles.

Mr. WHIPPLE. Do you run separate sets of books for each one of those houses?

Mr. ANDERSON. For some of them.

Mr. WHIPPLE. Are the books for those separate branches uniform all the way through?

Mr. ANDERSON. Yes, sir.

Mr. WHIPPLE. So that you can establish then a uniform system in your slaughtering houses?

Mr. ANDERSON. Yes, sir.

Mr. WHIPPLE. So far as you distribute in your sales offices, can they be brought right in and combined with your accounts so that we can deal with the situation as a whole?

Mr. ANDERSON. Yes, sir.

Mr. WHIPPLE. Make up a consolidated balance sheet, a consolidated profit and loss statement in detail?

Mr. ANDERSON. We do that.

Mr. MORSE. You have no control account on the books, however, that show the sales made by the different branch offices?

Mr. ANDERSON. Each branch house renders to us once a month a uniform trial balance of its general ledger, and that accounts for its products, with the exception of a few specialty branches.

Mr. MORSE. You have no sales-control account in your ledger?

Mr. ANDERSON. We have no sales-control account, but to clear up your idea on that, I will say that we run our Dutch Cleanser department, and soap, and hair, and glycerin, sales of the products do not go through our branch houses; we operate them entirely separate. Our arrangement is to sell jobbers, let the jobbers distribute our product. We do not go to the retail trade with these different products through our branch houses.

Mr. MORSE. It is only strictly meat products you sell through your branch houses?

Mr. ANDERSON. Yes, sir. I know some houses sell all their products through their branch houses, but in our case we sell through jobbers.

Mr. CHASE. I would like to ask a question. Do you carry, Mr. Anderson, on your books, these investment figures by departments?

Mr. ANDERSON. No.

Mr. CHASE. That is a statistical summary made on the outside?

Mr. ANDERSON. Yes.

Mr. CHASE. So when you say that you can make a distinction between the three classes as to investment, you either have to calculate the investment statistically for each department, and then combine them by classes, or else you have to take that method that we worked out in conference, of the consolidated plan and break it down into classes?

Mr. ANDERSON. At our plants we revise the figures once a year and check the amount of building value occupied by each department, and bring them up to date once a year.

Mr. CHASE. Now, in figuring investment by departments other than interest, what is your procedure?

Mr. ANDERSON. Inventories on account; we take the method that was approved by your people.

Mr. CHASE. Do you bring cash in there?

Mr. ANDERSON. Yes; we divide the cash up on that basis.

Mr. CHASE. And deduct the payables?

Mr. ANDERSON. Deduct the payables.

Mr. CHASE. It is then a matter of considerable estimate, although you feel it is accurately estimated?

Mr. ANDERSON. No; I would not say it was a considerable estimate. There is a debatable question on those open accounts. You could not run through our accounts and pick out an unpaid item; we have got to figure the total outstanding accounts and then take the credit terms and divide them on the credit terms, just as you folks authorized us to do.

Mr. CHASE. That is all.

Mr. MORSE. Anything further, Mr. Whipple?

Mr. WHIPPLE. Do you believe, Mr. Cudahy, that the capital in your business which is represented by borrowed money should have the same rate of return as your invested capital?

Mr. CUDAHY. Do I figure that way?

Wr. WHIPPLE. Yes; is that your opinion on the subject?

Mr. CUDAHY. We should have the same return on our borrowed capital as on the——

Mr. WHIPPLE. The rate of return that you get should be the same on borrowed money.

Mr. ANDERSON. I think we should have more. There is more risk attached to it.

Mr. CUDAHY. We do not get it, though.

Mr. WHIPPLE. Oh, yes, you do, less the cost of borrowed money.

Mr. CUDAHY. Less the cost?

Mr. WHIPPLE. Less the cost for the money. You pay your interest on your borrowed money.

Mr. MORSE. And you charge the excess to cost of production, the excess over 5 per cent?

Mr. CUDAHY. We charge it to expense.

Mr. WHIPPLE. In other words——

Mr. MORSE. That is the 5 per cent.

Mr. ANDERSON. The excess over 5 per cent is charged to expense.

Mr. MORSE. Expense of production?

Mr. ANDERSON. Yes; if we pay 6 per cent for our money, there is 1 per cent charged to expense.

Mr. WHIPPLE. We make a distinction there, Mr. Anderson. We would not call that expense, we would call it deduction, that is 1 per cent, and you think the correct way would be that 5 per cent would be charged to expense?

Mr. CUDAHY. Yes.

Mr. ANDERSON. We do not charge 5 per cent to expense; we would like to.

Mr. MORSE. Not expense of production, general expense, the same as you buy paper.

Mr. CUDAHY. The same as our labor account.

Mr. MORSE. No; the labor account is a different item.

Mr. ANDERSON. If we buy a paper by the year, that would be charged to expense of newspaper subscription.

Mr. WHIPPLE. You would not charge that to cost of production, would you?

Mr. ANDERSON. We would like to charge 5 per cent interest the same way.

Mr. WHIPPLE. You do not now charge that to production, that 5 per cent interest?

Mr. ANDERSON. We do not.

Mr. WHIPPLE. Mr. Cudahy said it was charged to cost of production.

Mr. ANDERSON. As it is now we get 9 per cent on our capital, and we get 4 per cent on our borrowed capital.

Mr. WHIPPLE. You think you are entitled to have it on borrowed capital?

Mr. ANDERSON. Surely, more.

Mr. WHIPPLE. You should make money on borrowed capital.

Mr. ANDERSON. Absolutely.

Mr. WHIPPLE. That is all right. I just want to get your opinion.

Mr. CUDAHY. I think we ought to, because they may call us for $10,000,000. The amount of profit should be made on the amount of business done. I don't think there is anything else.

Mr. MORSE. Mr. Cudahy, Mr. Chase has made a figuration of percentages showing what profit you were allowed to make, and what profit you may make, all figured out on a certain basis. I would like to have Mr. Chase show that to you, and explain it to you so you will know the basis he has made his calculation on and see if you think the basis is fair and also if you think that you will make the amount of profit on your total investment that is shown in the figuration. I might say that this figuration of Mr. Chase's is the best means that anyone can have at their disposal at the present time of gaining an idea as to what you are entitled to make, and what you will make, and it is rather vital that you should go over it.

Mr. CUDAHY. Our statement to the Food Administration shows we made about our allotted profit, and of course what we are going to make the next six months we do not know.

Mr. MORSE. Mr. Chase has figures there, as I understand it, of just four months.

Mr. CUDAHY. Six is the return, isn't it?

Mr. ANDERSON. We have not got that period in yet.

Mr. CHASE. Mr. Cudahy, is it your opinion that these figures are based as I have based them on the results for the four months of the regulation, will work out the same basis for a year?

Mr. CUDAHY. As I understand it, our profits in six months were about $160,000, and if that were the limit we have got an item in there of about $140,000 now that would come into this coming period, which would make our first six months' operation right according to the limit. Your question as to whether or not the permissible profits for the last six months will be equal to the permissible profits for the first six months, I think we can make that, if our capital keeps up the same way; but the question of whether we will be able to make the permissible profits for the last half of the year is extremely doubtful. We are right on the level now. If you examine our figures for last year, at the end of our first six months we had a profit of between four and five million dollars, and we wound up at the end of the year with $5,500,000. Now, this year at the end of the fourth month, it looked as though our profits were going to be enormous. At the end of the sixth month we had gone back almost to normal, and as I say, we will be normal when we take in this other item I speak of. Nobody can tell what is going to happen.

Mr. MORSE. It is reasonable to suppose that conditions as far as the packing industry are concerned will remain the same, or even will change so that you will make more?

Mr. ANDERSON. On some of our meat products, Mr. Cudahy, for the first month of this period, that would be for the month of May, we have run against very heavy losses in some of our meat products, enormous.

Mr. CUDAHY. That is why it is a hazardous business, because we do not know what we are going to realize on the products that we have in our house. We have had a shrinkage in value as high as 4 cents a pound in the last 60 days on some particular goods.

Mr. MORSE. What was the cause?

Mr. CUDAHY. Lack of demand.

Mr. CHASE. What is your answer to this proposition as to whether you can continue to make the allotted profit?

Mr. ANDERSON. We doubt very much if we can. Those figures look about right for the actual permissible profits.

Mr. MORSE. What figures are those, for the record?

Mr. CHASE. The allowed profits on class 1, on the basis of this figuring, is $4,969,000 for the year; class 2, $661,000.

Mr. CUDAHY. I don't see where you get that.

Mr. CHASE. It is right off your report.

Mr. CUDAHY. That is, permissible profits.

Mr. TATOR. Based upon your investments for the year.

Mr. CHASE. You have to take interest out of that. It looms largely.

Mr. CUDAHY. Of course, the only basis to be considered would be net profit.

Mr. CHASE. That is to you?

Mr. ANDERSON. Yes; net profits. My estimate is somewhere between $5,500,000 and $6,000,000 before the taxes, the income taxes, or the excess taxes are paid; that is, in all of our classes, 1, 2, and 3.

Mr. CHASE. That is, then, in your opinion, you won't be able to make the allowed profit?

Mr. CUDAHY. I don't think our allowed profit comes anywhere near that.

Mr. ANDERSON. After deducting our interest from our allowed profit, we will be going the limit if we can make $5,500,000 at the end of the year, for which we will have to pay a Federal income and excess-profits tax, that are going to be some taxes.

Mr. CUDAHY. We don't know what they are yet.

Mr. CHASE. How do those earnings compare with the earnings in previous years?

Mr. CUDAHY. They compare about the same as last year on a smaller business of last year. Last year our sales were only $184,000,000, and this year they are nearly $300,000,000.

Mr. CHASE. That is, you make about the same profit, but it will be a lower rate?

Mr. CUDAHY. It will be about 2 per cent on our sales.

Mr. MORSE. Is it your opinion, Mr. Cudahy, that these allowances working out, we will say 25 per cent on your net, that that is a reasonable return, all circumstances considered?

Mr. CUDAHY. I think it is a reasonable return if we are able to make the return which we are allowed to make. I think it is fair.

Mr. MORSE. Mr. Cudahy, do you think that the figures as submitted by Mr. Chase is a fair criterion for a year's business?

Mr. CUDAHY. I think his figures are excessive. I do not hope to make anything like that.

Mr. MORSE. As far as this Government regulation is concerned, we have only had the result of four months. Is that too small a time in your opinion to form an opinion or judgment as to what profit will be returned for a year's operations under this regulation?

Mr. CUDAHY. Yes; I don't think you can determine it under eight months. Of course, six months is nearer. Our figures, which have not been submitted yet, that we are just making, are the limit.

Mr. MORSE. I might say, Mr. Cudahy, I had that in mind regarding this inventory proposition, not having costs you can not compute profits very well for a limited period like a month or two months or three months or four months, or even five months or six months. Do you think that is true?

Mr. CUDAHY. Well, it is pretty hard to tell.

Mr. MORSE. I am talking as an accountant. As an accountant I can see that possibility, and Mr. Anderson can see it as an accountant, do you not, Mr. Anderson?

Mr. ANDERSON. Yes.

Mr. MORSE. You are liable to have fluctuations in the inventory value?

Mr. CUDAHY. You are bound to.

Mr. MORSE. Are you satisfied with that, Mr. Chase?

Mr. CHASE. Yes.

Mr. MORSE. Is there anything else, any other question anyone wants to ask Mr. Cudahy, or that Mr. Cudahy would care to answer, or any further information that will illuminate the subject?

Mr. CUDAHY. I haven't anything in mind.

Mr. MORSE. Mr. Anderson, you have a paper in which you have apparently estimated some profits, though I have not seen it. Is it of a nature that you would like to put in the record? If so, we would be glad to have it in?

Mr. ANDERSON. I think probably you will want to put it in. Mr. Cudahy has not gone over it yet, and I would not like to do that until he has seen it.

Mr. CUDAHY. Have you made any changes in it?

Mr. ANDERSON. Very few; only the one change which you suggested.

Mr. MORSE. The following is the paper prepared by Mr. Anderson, secretary of the Cudahy Packing Co., information which we would like to have put in the record:

For the first six months of our fiscal year 1918, during which period we were working under the regulations of the meat division of the Food Administration, the profits earned on business covered by classes 1 and 2 were approximately as follows: Class 1, $2,800,000; class 2, $350,000—total, $3,150,000. The profits permissible under the regulations were, class 1, $2,660,000; class 2, $330,000—total, $2,990,000.

In these two classes, as you understand, are included all profits from business in meats derived from slaughtered live stock, business in inedible by-products and in many products in which the quantity of material derived from slaughtered live stock is relatively small, and in some cases insignificant.

From the above profits of $3,150,000 there has been deducted $1,037,000, being the proportion of interest on borrowed money, which applies against our investment in these two classes. The net earnings, therefore, for 6 months on all business in classes 1 and 2 amount to a little over $2,100,000.

No deduction has been made in the above figures for the Federal income and excess profit taxes, which even at the present rate would run into the neighborhood of one-half million dollars.

These profits result from the slaughter of 412,408 cattle, 1,290,154 hogs, 429,039 sheep, 64,635 calves, the live weight of which exceeded 742,000,000 pounds, yielding approximately 450,000,000 pounds of meat, all highly perishable and prepared, handled, transported, and merchandised under the most exacting requirements. Based upon all earnings as above we have a profit of slightly over one-third of a cent a pound for all this risk and service.

Our net profits on what is termed class 3 departments—that is, those departments which bear no direct relation to packing-house business—were $1,174,000, making our entire net profits for the first six months of our present fiscal year, after deduction of interest, but before making any allowance for Federal taxes, $3,280,000.

We have already made donations this year to the Y. M. C. A., Red Cross Society, and other war relief activities of nearly $100,000. These donations will further reduce our net, as under the regulations of the meat division we are not allowed to treat them as necessary expense.

Our total sales for the first half of the present fiscal year amounted to $127,000,000, of which $104,000,000 were from business in classes

1 and 2. Our net profits, therefore, on these two classes, before making any deduction for Federal taxes, were approximately 2 per cent of the total amount charged by us to our customers. This, of course, will be substantially reduced by the payment of these taxes.

The Cudahy Packing Co. is the smallest of the five large packers. It does not elaborate its product to the same extent as some of its larger competitors, nor is it engaged in so many lines of industry. Its earnings, therefore, are dependent in a greater degree upon its regular packing-house business than those of the other companies with which it is grouped at present. For this reason, any reduction, if such is contemplated, would be more injurious to it than to the larger packers.

Our books show that under the present regulations our earnings are practically in line with the earnings of the past two years. For example, in 1916, on our entire business profits were approximately 2¼ per cent on sales. In 1917, 2.40 per cent and in 1918, 2.58 per cent. From the last figures however, no deductions for Federal taxes has been made.

Our sales have been increasing steadily, as the following figures show:

1914	109,000,000
1915	116,000,000
1916	134,000,000
1917	184,000,000
1918 (6 months)	127,000,000

The total profits on this volume of business have been far from excessive and this is particularly true at the present time in view of the constantly increasing difficulties of doing business and the risks incidental to the higher values handled.

In taking care of the increased demands made on us by our own Government and the Governments of our Allies, we have been running our plants to full capacity, necessitating vast expenditures, for live stock, labor and transportation charges.

Following are the average prices paid by us for live stock during the past three and one-half years:

	Cattle.	Hogs.	Sheep.	Calves.
1915	$6.82	$6.95	$6.81	$6.82
1916	7.12	8.43	8.08	7.50
1917	8.50	13.10	11.65	7.78
1918 (6 months)	9.04	16.50	14.04	8.59

This enormous increase in values has made it necessary for us to borrow much more heavily than formerly. At the close of our last fiscal year our notes payable account was in round figures $25,000,000. Since that time it has exceeded $50,000,000, and is now over $48,000,000.

In order that we may retain the confidence of our banks, which the foregoing figures show to be necessary, it is essential that our business be reasonably remunerative and our profits not too far below other industrial companies, most of which are earning at the present time far in excess of the packers.

On account of the high values tied up in our inventories, which must in the nature of the business be large in order to tide over periods of scant production, it is also necessary that profits be good at this time. A drop in the market of a few cents a pound, which is easily possible, would affect our profits to the extent of several million dollars.

Our stock of products and supplies at the end of April were worth in the neighborhood of $50,000,000. A drop of 10 per cent in prices would result in a loss of more than we expect to make during the entire current year.

Another source of possible loss lies in the plant additions which we have been forced to make and are now making in order to handle the present volume of business. Many alterations and additions are being charged to our capital accounts. The wear and tear on machinery and equipment at this time occasions many replacements at values fully 100 per cent in excess of the original cost.

When normal conditions return there undoubtedly will be much to be charged off against earnings.

We believe you will agree with us that the meat-packing industry is one of the most essential at this time, and that the packers have efficiently fulfilled all calls made upon them so far, not only by our own Government but by the allied countries.

Our profits are not excessive and with the prospect of greatly increased taxation imminent, we sincerely hope no changes will be made in the food regulations that will bring about a reduction in the amount we are permitted to earn. It should be borne in mind that competition has not been eliminated in our domestic business and that there is a strong possibility that we may not earn our full quota and that the rate of earnings for the first half of the present year may not continue throughout the balance of the year, and that while there is a limitation to our profits there is absolutely no guaranty against loss.

Mr. MORSE. Is there anything else?

Mr. CUDAHY. Nothing that I know of. That is all I have in mind just now.

(And thereupon, at 6.05 o'clock p. m., June 12, 1918, the hearing of the above-entitled matter was closed.)

MORRIS.

CHICAGO, ILL., *June 11, 1918*—10 a. m.

Present on behalf of the Federal Trade Commission: Stuart Chase, Esq.; Samuel W. Tator, Esq.; Perley Morse & Co., certified public accountants, New York, represented by Perley Morse, Esq., and P. S. Whipple, Esq.

Present on behalf of Morris & Co.: Edward Morris, jr., Esq., and H. A. Timmins, Esq.

Edward Morris, jr., was called as a witness and being duly examined, testified as follows:

Mr. MORSE. Mr. Morris, you are familiar with the regulations of the Food Administration, meat division, which have been in effect since November 1, 1917?

Mr. MORRIS. In a general way I am.

Mr. MORSE. This is a copy of those resolutions, is it not? [Handing document to witness.]

Mr. MORRIS. I suppose so.

Mr. MORSE. You say you are familiar with them in a general way? That means, I suppose, that you are familiar with their workings and their effect——

Mr. MORRIS. In a general way.

Mr. MORSE (continuing). Under business conditions in a general way?

Mr. MORRIS. Yes.

Mr. MORSE. What is your opinion, from the packers' standpoint as to the reasonableness or unreasonableness of these regulations?

Mr. MORRIS. I do not believe we have hardly gone far enough with those to express a definite opinion.

Mr. MORSE. Have you any suggestions to offer as to changes which would be in line with making these regulations more adaptable to your business?

Mr. MORRIS. I do not believe I have any suggestions right at the present time.

Mr. MORSE. Have you any suggestions to offer as to any other basis for regulating the packing industry?

Mr. MORRIS. I believe that was gone over thoroughly when these regulations were put in, and all kinds of different regulations discussed. The Food Administration seem to feel that this was the proper way to regulate them.

Mr. MORSE. Yes; but that was done, I take it, before anything had been tried out. Now, this has been tried out since November 1, and the Federal Trade Commission——

Mr. MORRIS. I think it is their desire, if they are wrong on anything, to change it.

Mr. MORSE. Well, you think there is anyway where these regulations could be improved?

Mr. MORRIS. I haven't any suggestions.

Mr. MORSE. None whatever to make?

Mr. MORRIS. None whatever.

Mr. MORSE. Are you familiar with the regulations promulgated by the Canadian Government?

Mr. MORRIS. No; I have heard more or less about them. I do not know really what went through on them.

Mr. MORSE. You never read them over?

Mr. MORRIS. Not as finally passed. Possibly you could give me the gist of them rather than give me a whole copy.

Mr. MORSE. There is a summary here. Mr. Morris, here is a copy of what is known as the Canadian regulations regulating the packing industry of the Dominion of Canada. I will ask you to look through these and tell us what you think of this scheme of regulation as opposed to the United States scheme. [Handing paper to witness.]

Mr. MORRIS. That is pretty hard to look through a thing and express an opinion of it.

Mr. MORSE. Well, you have noticed that the Canadian regulation is based upon a percentage of gross sales, while the United States regulation is based upon investment.

Mr. MORRIS. Ours is based both ways, as I understand it, Mr. Morse.

Mr. CHASE. Mr. Morris is right.

Mr. MORSE. Well, what I want to find out from you is which you think would be the fairer basis, the Canadian basis or the basis that the United States is working on.

Mr. MORRIS. We have both ways.

Mr. MORSE. Which would you prefer?

Mr. MORRIS. Naturally, from a money-making standpoint, I would prefer to be limited as little as possible. I do not mean by that that I am opposed to regulations; if regulations will help win this war we are in favor of regulations.

Mr. MORSE. So you do not want to make any further comment now as to these regulations, either the Canadian or the United States?

Mr. MORRIS. I do not believe right at this present time I do. Our main object right now is trying to make the amount that the regulations call for.

Mr. MORSE. You have done that, haven't you?

Mr. MORRIS. Is that necessary to put in here? I do not know who this testimony is going to, and that is rather a private question in regard to our business.

Mr. MORSE. Well, this testimony will be laid before the Federal Trade Commission proper.

Mr. MORRIS. Yes; but I do not know whether they are going to publish it or not going to publish it. There has been a good deal of confidential testimony and letters that have been published.

Mr. MORSE. Well, I will say to you now, Mr. Morris, as far as that question is concerned, I believe that Mr. Chase has statements that show all those things.

Mr. MORRIS. I think so, but the statements given to Mr. Chase were given with the general understanding that those would be confidential statements. As far as you yourself are concerned, I know anything that is confidential you will do your best to see that it is not published.

Mr. MORSE. I will say as far as I am concerned now, none of this will be published.

Mr. MORRIS. Well, I know that, but you have the statements from Mr. Chase. That is an accounting proposition. I believe you can very readily get those statements.

Mr. MORSE. Well, we have them. I just wanted to see if you were aware of that from your own knowledge.

Mr. MORRIS. Certainly I am aware of it, and certainly I am aware of how we are coming out.

Mr. MORSE. You know of your own knowledge that you have made the profit, probably a little in excess of the profits called for by these regulations?

Mr. MORRIS. I do not say that.

Mr. MORSE. Well, you know that.

Mr. MORRIS. You can get what it is. I know what our profits are, and you can get what our profits are from Mr. Chase's records.

Mr. MORSE. I have before me your balance sheet for the fiscal year ending 1917, which shows total assets in thousands of dollars, 82,536. Is that a correct statement of your assets at that time? What I mean is this: Are those assets understated, do you believe?

Mr. MORRIS. In regard to what?

Mr. MORSE. According to the value.

Mr. MORRIS. The present value?

Mr. MORSE. No; according to the value of your assets.

Mr. MORRIS. As taken on what date?

Mr. MORSE. A fair value of these assets.

Mr. MORRIS. As taken on what date?

Mr. MORSE. Well, taken as of the end of your fiscal year 1917.

Mr. MORRIS. On that value? On values at that time?

Mr. MORSE. Yes.

Mr. MORRIS. On replacement values at that time?

Mr. MORSE. No; I won't say on replacement values at that time. Book values.

Mr. CHASE. I might add this is from your printed report.

Mr. MORRIS. If this is from our printed report, those are our book values.

Mr. MORSE. Those are your book values?

Mr. MORRIS. Yes.

Mr. MORSE. You think the actual value is more?

Mr. MORRIS. As a replacement basis of that date?

Mr. MORSE. No; I don't mean that.

Mr. MORRIS. Well, I do not see, unless you tell me, as to what date or what replacement value or what you mean, how I can answer that question.

Mr. MORSE. What do you mean by replacement values, Mr. Morris?

Mr. MORRIS. What it would cost us to replace it at that date.

Mr. MORSE. What I am getting at is this: Have you any other assets that would increase the amount as shown by your books?

Mr. MORRIS. Will you state that question, please?

Mr. MORSE. Have you any other assets than those shown by your books? In other words, I want to know what assets you have that this balance sheet does not show?

Mr. CHASE. Morris & Co. has made a request for an increase of seven or eight million dollars in assets.

Mr. MORRIS. We feel that we should be on the same basis as our competitors in regard to valuation of assets. A statement of what we feel should be included in our assets for regulation purposes has been made up by Mr. Timmins and submitted to Mr. Chase. To the best of my knowledge these assets are correct.

Mr. MORSE. You know nothing as to the detail of these assets yourself?

Mr. MORRIS. I have gone over it in a general sort of way with Mr. Timmins.

Mr. MORSE. He will prove up those?

Mr. MORRIS. Yes.

Mr. MORSE. Your idea is it is simply a writing up of these book assets; is that what you mean?

Mr. MORRIS. No. I think it is putting them nearer what a replacement basis would be, and more in line with what is carried by some of our competitors.

Mr. MORSE. What do you mean by "replacement basis"?

Mr. MORRIS. More in line with what it costs to-day. Of course, we have not asked, as far as I understand it, for present replacement, have we, Mr. Timmins?

Mr. TIMMINS. We have our figures made up in two ways, showing what they were four years ago and what they would be on a replacement basis to-day.

Mr. CHASE. What is that $7,000,000 based on?

Mr. TIMMINS. I think that is the present replacement value.

Mr. MORSE. That is the present replacement value?

Mr. TIMMINS. Yes.

Mr. MORSE. Now, you take in the case of net fixed assets, in which you show as of the end of your fiscal year 1917, in thousands of dollars, 13,144——

Mr. MORRIS. What is that?

Mr. CHASE. $13,000,000.

Mr. MORSE. I am talking of thousands, $13,000,000; I suppose there is land in that?

Mr. MORRIS. Can I just see the statement?

Mr. MORSE. Yes; sure.

Mr. MORRIS. Sure.

Mr. TIMMINS. Yes; there is land in that.

Mr. MORSE. And you have got buildings in it?

Mr. MORRIS. Yes.

Mr. MORSE. Machinery?

Mr. MORRIS. Yes; there will be some machinery in that.

Mr. MORSE. Does the land—the cost land value show on your books at the present time?

Mr. MORRIS. That is what it is carried at at present; that represents our cost land values.

Mr. MORSE. How long have you held this land?

Mr. MORRIS. I guess some of it for right close to 50 years, some of it probably more—a good deal longer than anyone around here can remember.

Mr. MORSE. And the buildings in your books are represented by the actual cost thereof?

Mr. MORRIS. The actual cost value, and of course we have a reserve for depreciation.

Mr. MORSE. You have been writing off depreciation each year on the buildings?

Mr. MORRIS. Yes.

Mr. MORSE. At what rate?

Mr. MORRIS. I think Mr. Timmins could answer that a little bit better than I could.

Mr. MORSE. Well, that is all right.

Mr. MORRIS. It shows how much depreciation we have charged off on the total.

Mr. MORSE. As to machinery, the books show the cost value of your machinery?

Mr. MORRIS. Less depreciation.

Mr. MORSE. And you have taken depreciation on that each year?

Mr. MORRIS. Yes.

Mr. MORSE. You want the increase in your machinery as well, or you figure that in this seven millions, did you, Mr. Morris?

Mr. MORRIS. I presume we have.

Mr. TIMMINS. Yes.

Mr. WHIPPLE. In other words you want to bring your assets up to a point where you will have them at the present replacement value

or the replacement value prior to the war, you want that replacement value to be both on your machinery and on your land—not alone on the land which you hold.

Mr. TIMMINS. On all the property.

Mr. MORRIS. Our total properties.

Mr. TIMMINS. Land, buildings, and machinery.

Mr. WHIPPLE. I see.

Mr. MORRIS. We are trying to get on what is an equitable basis from the Government standpoint and our standpoint. We do not feel that we should be penalized for running our business conservatively.

Mr. TIMMINS. You understand that there is absolutely no good will or any such item in our assets.

Mr. MORSE. I know it doesn't show in your balance sheet.

Mr. TIMMINS. There is not any.

Mr. MORRIS. We feel we want to get on the same basis; we feel we have as much good will as any one else; we have never considered that should be shown as an asset, but if it is shown by our competitors, we feel we should be put on the same basis.

Mr. MORSE. Well, you do not calculate any good will in this $7,000,000?

Mr. MORRIS. No; that is actual property.

Mr. TIMMINS. No, but we do know that other packers——

Mr. MORRIS. Have a good will account.

Mr. TIMMINS. Have reappraised their properties and have got that in their assets, and we do know that some packers have got good will included as part of their assets.

Mr. CHASE. We have knocked it out.

Mr. TIMMINS. Well, we are not figuring on good will, if the others did not, but we do feel that we should have the appraised value.

Mr. MORRIS. We ought to be on the same basis.

Mr. TIMMINS. We ought to be on an equal basis.

Mr. MORSE. I will say to you, Mr. Morris, as far as that is concerned, you should be on the same basis as the rest.

Mr. MORRIS. We have a business here in which we have made a good many improvements each year. Our business,—practically a very small amount has been taken out of the business; personally from my personal standpoint, it does not make very much difference what I make out of it. We want to make enough money so we can keep our buildings up, keep the organization up, and we feel we have to be on the same basis as our competitors, to have an opportunity to make the same amount of money.

Mr. MORSE. Have you had an appraisal made of your property on which you have based this increase of $7,000,000 on your plant?

Mr. MORRIS. Yes, sir.

Mr. MORSE. Who made that appraisal?

Mr. MORRIS. Who was that, Mr. Timmins?

Mr. TIMMINS. Coats & Burchard Co.

Mr. MORSE. When was this appraisal made, Mr. Morris?

Mr. MORRIS. Two or three months ago, about that time, I don't know exactly.

Mr. MORSE. And what were the values used by them?

Mr. MORRIS. I think it is given under two values. One the basis of 1917, wasn't it, Mr. Timmins?

Mr. TIMMINS. Yes; one for 1913, and one for 1917.

Mr. MORSE. What was the difference in the valuation as arrived at by these appraisers in 1914 and 1917?

Mr. TIMMINS. In the neighborhood of $2,000,000.

Mr. MORRIS. $3,000,000, wasn't it, Mr. Timmins?

Mr. TIMMINS. In the neighborhood of $2,000,000.

Mr. MORSE. 1917 was $2,000,000 more?

Mr. TIMMINS. Yes, about that.

Mr. MORSE. Have you had any appraisals made of your property prior to 1914?

Mr. MORRIS. I do not think we have; no, we have never had an appraisal of the property until this one just made.

Mr. MORSE. Do you own a plant in Argentina?

Mr. MORRIS. Does the Federal Trade want to know that? That has no bearing on our regulations; we are not being regulated on outside interests.

Mr. MORSE. Well, it probably would not be included in any rate fixing, but as a general view of your assets——

Mr. MORRIS. We have not included anything—we have not changed any assets in that regard, Mr. Timmins, as I understand it.

Mr. TIMMINS. No; the plant in Argentina is not shown on our books. It is on the books of the Morris Beef Co. (Ltd.), of London.

Mr. MORRIS. I believe it would have absolutely no bearing for your work, would it, Mr. Chase?

Mr. MORSE. Only in a general way.

Mr. CHASE. Simply a general balance sheet brought down, it would be in class 3, unregulated.

Mr. MORSE. How was that plant built and paid for in the Argentine?

Mr. MORRIS. That was before I was in the business.

Mr. MORSE. Was it paid for out of the profits of the business, or were securities issued in some way?

Mr. MORRIS. That was before I was in the business, Mr. Morse.

Mr. MORSE. Mr. Timmins, are you familiar with that?

Mr. TIMMINS. It was paid for——

Mr. MORSE. You need not answer now if you desire to look it up.

Mr. TIMMONS. It was paid for by the London house.

Mr. MORSE. Well, the London house paid for it out of earnings, or surplus, did they not? There were no securities issued?

Mr. TIMMONS. No securities issued? That is, you mean bonds now?

Mr. MORSE. Bonds or stock?

Mr. TIMMINS. No bonds issued.

Mr. MORSE. Paid for out of the surplus of Morris & Co.?

Mr. TIMMONS. Yes.

Mr. MORSE. Morris & Co., New York?

Mr. TIMMINS. No; it was Morris Beef Co. (Ltd.), of London.

Mr. MORSE. Morris Beef Co. (Ltd.), of London?

Mr. TIMMINS. Yes.

Mr. MORSE. Do you mean to say to me, Mr. Morris, that the actual cost value of the lands 50 years ago remained on your books with no writing up of the values?

Mr. MORRIS. Absolutely.

Mr. TIMMINS. Not a dollar.

Mr. MORRIS. Not a dollar.

Mr. MORSE. And the same with the buildings?

Mr. MORRIS. Absolutely.

Mr. MORSE. You have of course, charged to the buildings any additions?

Mr. MORRIS. We have charged investments with any buildings and then taken off depreciation against them from year to year. You see what I mean? If we increase our bulidings, why, it is a permanent improvement, we charge it, but we take off year by year depreciation against it.

Mr. CHASE. May I ask if your depreciation rate has been on a definite basis, or has it varied according to good years and bad years?

Mr. TIMMINS. It has varied somewhat.

Mr. MORSE. You have not taken off a uniform rate?

Mr. TIMMONS. No; it has varied.

Mr. MORSE. About what per cent?

Mr. MORRIS. I guess ours has been more or less arbitrary, hasn't it, Mr. Timmins?

Mr. TIMMINS. Yes; it has been more or less arbitrary.

Mr. MORSE. Was that depreciation based on a certain per cent?

Mr. TIMMINS. Yes; whenever we have taken it it has been on a percentage basis.

Mr. MORSE. What is that percentage basis?

Mr. MORRIS. That has varied from time to time.

Mr. TIMMONS. It has varied. We have gone from nothing up to 6 per cent.

Mr. MORRIS. You see we have gone from nothing up to 6 per cent on our depreciation. At times haven't we averaged more than 6 per cent?

Mr. TIMMINS. I doubt if it has averaged more than 6 per cent.

Mr. MORSE. That is on buildings alone?

Mr. MORRIS. Yes.

Mr. MORSE. What has it been on machinery?

Mr. MORRIS. Ten per cent, hasn't it?

Mr. TIMMINS. The same, unless there is a change right now—that is, very recently, within the last year or two; but it has been, as I say—it will average probably 5 to 6 per cent.

Mr. MORRIS. I guess you understand that if we are through with any machinery, we charge that out, don't we, Mr. Timmins?

Mr. TIMMINS. Yes; absolutely.

Mr. MORSE. Well, if a machine is worn out——

Mr. MORRIS. Yes.

Mr. MORSE. You mean to say you establish a credit on your books for the value of that machine?

Mr. MORRIS. What do you mean?

Mr. TIMMINS. No; we charge that to depreciation.

Mr. MORRIS. We charge that off, if it is worn out.

Mr. TIMMINS. If it is worn out and scrapped we charge it to depreciation.

Mr. MORSE. You charge it to depreciation?

Mr. TIMMINS. Yes.

139888—S. Doc. 110, 66-1——10

Mr. WHIPPLE. Well, wouldn't some of this property, by this long term of depreciation, be entirely written off your books?

Mr. MORRIS. We can not hardly tell which is written off or which is not. We carry them at the original cost and then we carry a depreciation reserve.

Mr. WHIPPLE. You do not apply it against the same property?

Mr. MORRIS. No, we do not. We keep it as a total.

Mr. MORSE. Would you be satisfied with a revaluation of your investment, of your plant and machinery and land, say as of 8 or 10 years back?

Mr. MORRIS. We are satisfied with whatever is fair on the proposition. The point I am trying to make is that we have to be in line with our competitors. We have to keep our business going, and we need lots of new buildings and so forth. We have to make money to get them. We have to keep up to date to be able to compete.

Mr. MORSE. Well, I agree with you on that. But what do you consider is fair. When would you consider would be a proper time to consider the value of these assets of your buildings, machinery, and land?

Mr. MORRIS. I surely would not think it would be fair before 1913 or 1914; I think it would be nearer fair at the present date, because if a fellow went into business at the present date, he would be allowed to make on that date.

Mr. MORSE. Wouldn't you think it would be more fair before 1914?

Mr. MORRIS. Not on that one account.

Mr. MORSE. On what account?

Mr. MORRIS. That anyone going into business, and people are going into the packing business every day, is allowed to make on the present basis.

Mr. MORSE. But this $7,000,000 increase was based on the present 1917 valuations?

Mr. MORRIS. Yes, sir.

Mr. MORSE. At the present time you do not consider that on account of the small valuation of your plant that you are on a competitive basis with some of the other concerns?

Mr. MORRIS. No.

Mr. MORSE. You do not feel that?

Mr. MORRIS. No. We feel sure in our own minds, that we are not. We do not think we ought to be penalized for keeping our records conservatively.

Mr. MORSE. Mr. Morris, you are familiar with this article 2——

Mr. MORRIS. I would have to glance over it.

Mr. MORSE. Page 2 of the United States Food Administration, meat division, Rules and Regulations.

Mr. MORRIS. I would have to glance over it. Section 1?

Mr. MORSE. Yes.

Mr. MORRIS. Yes.

Mr. MORSE. You notice that the business is divided up into classes; there is class 1, class 2, and class 3?

Mr. MORRIS. Yes, sir.

Mr. MORSE. And on class 1 you are allowed a profit of 9 per cent?

Mr. MORRIS. Yes.

Mr. MORSE. And that 9 per cent is based upon the investment in the particular lines that enter into class 1?

Mr. MORRIS. Yes.

Mr. MORSE. Do your books show the capital investment in class 1?

Mr. MORRIS. I think Mr. Timmins has determined that, with Mr. Chase's help, from our books.

Mr. TIMMINS. Yes; I think that can be determined.

Mr. MORRIS. It is something that had never been done before. We had never had occasion to separate it before this regulation came into effect.

Mr. MORSE. But your books——

Mr. MORRIS. I think for all practical purposes it is carried.

Mr. TIMMINS. Our books are kept in such a way that you can do it.

Mr. MORSE. But your books do not state that on the face of it?

Mr. TIMMINS. Well, that could be answered yes and no. You can determine from our books that information.

Mr. CHASE. That is you have got it by each department.

Mr. TIMMINS. By departments.

Mr. CHASE. You can accumulate the departments by classes.

Mr. MORRIS. You can decide whether the departments are in or out.

Mr. MORSE. But your books do not show, talking strict accounting now, Mr. Timmins, your books do not show the actual investment in each class of business, classes 1, 2, and 3, without some figuration to arrive at the amounts that you think are invested in those different classes of businesses.

Mr. TIMMINS. You have to do some little figuring on the buildings, for instance, but you can determine that, I think, fairly accurately.

Mr. MORSE. But there is nothing on the books—those special accounts on the books do not show the investment divided into these three classes?

Mr. TIMMINS. No; it would not show plainly on the books, under the headings of these three classes, but, as I say, the accounts are kept so that with very little trouble——

Mr. MORSE. But there is no special account that shows this on your books?

Mr. TIMMINS. No.

Mr. MORSE. As I understand it, Mr. Timmins, you have to divide your products up into classes and your books show, for instance, against cattle killing, there is so much investment, and against sheep killing there is so much investment, and you have to total it up?

Mr. TIMMINS. And that can be readily done, and I think it can be fairly done.

Mr. MORSE. But it is done on a basis that you have determined or that you think is fair?

Mr. TIMMINS. Yes. Of course, the machinery would be actual.

Mr. MORSE. Yes.

Mr. TIMMINS. The only things you would have to divide would be the pens, and you can do that on a square-foot basis.

Mr. MORRIS. The stock is a big part of our business; our inventory is a big part of our business, and, of course, that is actual.

Mr. TIMMINS. The stocks are actual.

Mr. MORRIS. If you look over our resources and liabilities statement you will find that our buildings are a comparatively small part of our assets.

Mr. TIMMINS. Still, you can divide the buildings on an area basis; get at it very nearly actual.

Mr. MORSE. In other words, it is more or less of an estimate?

Mr. MORRIS. I would say it was more or less actual.

Mr. TIMMINS. I should say it was more or less actual. For instance, Mr. Morse, let us say here is a building with four floors.

Mr. MORSE. Oh, I can see, Mr. Timmins, how you can do it.

Mr. TIMMINS. You have a department on each floor; you can divide the value of the building into four parts, or if you have eight departments, each one occupying either half a floor, or two-thirds of a floor, or three-quarters of a floor, you can arrive very nearly at the exact value of the investment in that particular department.

Mr. MORSE. Well, an estimate, Mr. Timmins, may be very near and it may be very far apart, but that don't alter the fact that this is an estimate, does it?

Mr. TIMMINS. Well, I would not call it an estimate. You know that you have a building with so many floors in it and you know how many square feet are used for each department. I would hardly take that as an estimate. I think that is pretty near actual.

Mr. MORSE. I think I will have to refer you to the Standard Dictionary as to the definition of the word "estimate."

Mr. CHASE. I would like to ask one question, Mr. Timmins: Does this investment by departments really appear on your books as an integral part of the accounting system or is it more a statistical record that is carried along side by side?

Mr. TIMMINS. It is part of our regular bookkeeping or accounting system.

Mr. CHASE. The total investment by departments?

Mr. TIMMINS. Yes.

Mr. MORSE. You made those changes in your books at the time these regulations were put out, November 1, did you, Mr. Timmins?

Mr. TIMMINS. Which changes?

Mr. MORSE. The change of your books over from the basis on which you formerly ran them, so as to run them on the basis according to these regulations here?

Mr. MORRIS. It did not mean much change.

Mr. TIMMINS. I do not think there has been much change.

Mr. MORRIS. It was just a case of giving them the information they wanted, that the books already showed, getting it up in the form Mr. Chase wanted.

Mr. MORSE. Well, class 2, the estimate as to the investment in class 1, I suppose is the same as in class 3?

Mr. TIMMINS. Yes.

Mr. MORSE. And class 3 is unrestricted. Do you feel, Mr. Morris, that it would help and serve its purpose better if the whole business was regarded as one class, rather than to be divided up into three classes?

Mr. MORRIS. No; I do not.

Mr. MORSE. Why not?

Mr. MORRIS. Because there are certain departments there where our competitors are unrestricted—are unrestricted, and, therefore, we are not allowed to make what is the natural profit in the business and they are, and they can increase their facilities and increase their business so much faster than we can.

Mr. MORSE. Suppose your competitors, all of you, are put on the same basis, suppose instead of having the business divided up into three classes, that the net worth or net investment should be considered, and a certain per cent allowed to you on that?

Mr. MORRIS. Well, in that case do you mean that a butterine fellow, for instance, would be on the same basis—a fellow that is simply manufacturing butterine?

Mr. MORSE. No; I am talking now about the meat packers as a whole.

Mr. MORRIS. Well, I guess you did not get my point, Mr. Morse. At the present time, as I understand it, a fellow simply manufacturing butterine, and some of our biggest competitors are not in the packing business at all, and unlimited in regard to profits. I do not believe it would be fair to limit us and not limit them, and to limit them on the basis that you would probably feel would be fair for beef and pork, I do not think would be fair for the butterine people.

Mr. MORSE. Personally you would rather see these regulations continued in the present form—the business divided into three classes?

Mr. MORRIS. Well, that is pretty hard to say until we get your other proposition.

Mr. MORSE. Well, I will say to you, Mr. Morris, that I do not know as there will be any other proposition.

Mr. MORRIS. You are simply asking me if I would rather have it as it is than something indefinite?

Mr. MORSE. We are simply investigating to see what recommendation should be made.

Mr. MORRIS. I think we have to be in such a shape that our competitors, not in the same line of business—that we won't be regulated out of business and that they are not. I think we have to be in shape to make as much money as our competitors do, if we are to stay in the business.

Mr. MORSE. Who do you mean by competitors?

Mr. MORRIS. I said the butterine people, for instance. The biggest manufacturer of butterine is Mr. Jelke. He makes more than—I guess more than any packer.

Mr. TIMMINS. He is the biggest manufacturer, including the packers.

Mr. MORRIS. I do not believe it would be fair to allow us a small amount on butterine and allow him to make what he wants. I have no objection to him making it at all, but I think we ought to be in line to compete.

Mr. TATOR. Mr. Morse, may I ask a question there?

Mr. MORSE. Certainly.

Mr. TATOR. This has often occurred to me, Mr. Morris: Supposing the five big packers in the butterine business were regulated in their profits, wouldn't that make all the other fellows in the business, outside of the packing business, fall in line and sell lower? Wouldn't it affect them practically indirectly and require them to regulate their profits?

Mr. MORRIS. It has some tendency to do it; how great the tendency would be, I do not believe anyone could tell without it being tried; I do not believe it would be 100 per cent or anywhere near it.

Mr. TATOR. You do not think they would get away with any such profits as would seriously affect you in that business? Wouldn't you have the advantage of selling lower, at the lower profits?

Mr. MORRIS. No; I do not see how a person can be regulated and have an advantage.

Mr. TATOR. You would do more business. You would have an advantage in some respects.

Mr. MORRIS. We could do that if occasion warranted anyhow, if we were not regulated.

I think there is one point in this packing business that most people do not appreciate, and that is the necessity of the packer making money in order to keep his equipment and his other things up. I think that is an awfully important thing from the Government's standpoint. Our business is rather exceptional that way. We pay very small dividends, and, of course, from that standpoint it don't make much difference to me personally. My income won't be much more if we have a good year or if we don't. I do like to have a good year because I like to have first-class plants, and I guess all of the packers—I know we have a lot of old buildings that we ought to replace.

Mr. MORSE. Mr. Morris, your business has increased to a large extent over 1914, 1915, and 1916? It has been increasing right along, hasn't it?

Mr. MORRIS. Yes, sir.

Mr. MORSE. To what extent has it increased, about?

Mr. MORRIS. I hope our sales will be at least 50 per cent more than they were in 1913, this year.

Mr. MORSE. You have had to make a lot of additions to your plant, haven't you?

Mr. MORRIS. Yes, sir.

Mr. MORSE. To take care of this increase?

Mr. MORRIS. Yes; we have had to make a good many additions.

Mr. MORSE. And these additions have crowded you quite some, haven't they?

Mr. MORRIS. In what way?

Mr. MORSE. Well, you take before your business increased so rapidly, you had plenty of space for doing the business you have been doing?

Mr. MORRIS. I have never seen a packer that had plenty of space, regardless of how big their plant was. A packing house is a very elastic proposition. They say you have room for so much and when you need it, you usually have room for a little more, and if you had half as much, you would be crowded.

Mr. MORSE. This increase in business has crowded you a great deal?

Mr. MORRIS. We are crowded.

Mr. MORSE. So you can not operate as efficiently as you could if you had more space, is that true?

Mr. MORRIS. I think that is correct; with more space we would have more investment, however.

Mr. MORSE. Yes; that is true. In other words, if you were going to build a plant now, you would build it much different from this plant and have more space, and have things more conveniently arranged, and more efficiently arranged?

Mr. MORRIS. That would depend upon how much money I wanted to spend.

Mr. MORSE. Suppose you wanted to spend enough money to take care of your present business, you would build an entirely different plant, wouldn't you? I mean so far as arrangements are concerned?

Mr. MORRIS. We are very fortunate in that. We would probably make some adjustments, but practically all of our land is together; we are not spread—we have a hog house near the hog pen, because we do not have as far to drive for our hogs, which we feel is an advantage; outside of that one, all of our stuff is together, practically.

Mr. MORSE. You can make more money and operate at less cost if you had a plant that was more conveniently arranged, couldn't you?

Mr. MORRIS. I suppose there would be a number of minor improvements. I think our Chicago plants are possibly the most conveniently arranged of any, just because it so happened that we have had our space together. You see, outside of one corner up here, we own from this corner down here a square from here up to Forty-fifth and Ashland.

Mr. MORSE. You can manufacture your product on land that is worth $100 an acre as well as you could on land that is worth a thousand dollars an acre, couldn't you?

Mr. MORRIS. That depends on the location of the land.

Mr. MORSE. Land that is conveniently located?

Mr. MORRIS. I do not know where you would find any conveniently located land at any such figures as that.

Mr. MORSE. I say outside of Chicago somewhere?

Mr. MORRIS. No; you would have to be near the stockyards.

Mr. MORSE. Well, suppose the stockyards were outside of Chicago?

Mr. MORRIS. Well, you have got your labor situation there. It is certainly a big advantage to be in a big city from a labor standpoint.

Mr. MORSE. Don't you think your labor would come to you?

Mr. MORRIS. I think we would have trouble. I think people are coming to labor, rather than labor coming to them, recently.

Mr. MORSE. Other industries have had that experience, where they have erected their plants away from big cities, and never had any trouble in getting labor.

Mr. MORRIS. I believe all industries are having trouble in getting labor at the present time. I believe it is easier to get labor in big cities than out in the country at the present time. I think if there is a surplus of labor, it does not matter very much where the work is, the labor will find the work, but where there is a scarcity, it is pretty near up to the industry to find the labor. I think there are a good many advantages Chicago has over a country point, from a packing-house standpoint.

Mr. MORSE. Well, isn't the district here, the packing-house district, overcrowded at the present time?

Mr. MORRIS. We have got plenty of space; I don't suppose we are built on over a half or two-thirds of the space.

Mr. TIMMINS. Probably two-thirds.

Mr. MORSE. You have space for further enlargement?

Mr. MORRIS. Yes.

Mr. MORSE. If you have to enlarge your plant?

Mr. MORRIS. Oh, yes; we could increase our plant at least 50 per cent on the space we have.

Mr. MORSE. And still operate it efficiently and conveniently?

Mr. MORRIS. Yes.

Mr. MORSE. Without increasing your expense?

Mr. MORRIS. Well, that would be a pretty hard thing to say; in a general sort of way I would say yes.

Mr. MORSE. Without an undue proportion?

Mr. MORRIS. In a general way without an undue proportion. Of course most of our increase has been replacements and buildings for by-products and different ways of handling things. We are not killing any more cattle in Chicago to-day than we were 20 years ago; probably not as many.

Mr. MORSE. Mr. Morris, have you any statistics that would show, say during the first six months of 1918, when the time comes, would you have any figures for that period or any other period, showing the total number of cattle killed and the total number of calves?

Mr. MORRIS. By us?

Mr. MORSE. Yes.

Mr. MORRIS. Yes.

Mr. MORSE. The total number of sheep and hogs and everything?

Mr. MORRIS. We could get up those figures.

Mr. MORSE. Did you ever get up any figures of that kind?

Mr. MORRIS. We have a number of times, something similar to that. For instance, not long ago the hide department, the leather industry down in Washington, wanted some of those figures and we got up some. I do not believe it would be just the figures you call for, but the same general line of figures.

Mr. MORSE. Mr. Timmins, could you get up for us a set of figures, say from November 1, 1917, to May 1, showing the total cattle slaughtered, total calves slaughtered?

Mr. MORRIS. In Chicago, do you mean?

Mr. MORSE. Yes; all your business, all over, except that in foreign countries; the total cattle, calves, pigs, sheep—in fact, all animals slaughtered; could you give us that?

Mr. TIMMINS. Yes.

Mr. MORSE. Could you also give us——

Mr. MORRIS. I could give you the amount of hogs in five minutes if you want the hogs. I suppose you want the whole proposition?

Mr. MORSE. I want them all. Could you give us that information, in six-month periods, say for 1913, 1914, 1915, and 1916; would it be much work for you to do that?

Mr. TIMMINS. No; not if we have it back readily that far; we could give it to you very quickly; that is, it is not a big job.

Mr. MORRIS. At the time we could give you any of those figures. I don't know how far back we keep our records.

Mr. TIMMINS. That is the proposition.

Mr. MORSE. It would be an interesting proposition if we could get it. You can see why it would.

Mr. CHASE. Yes; I think Wagoner on Statistics would give that. The sheets you are sending in now have that for the corresponding months.

Mr. TIMMINS. Yes.

Mr. MORSE. Maybe those figures are compiled somewhere.

Mr. TIMMINS. Well, if they are, we shall have them.

Mr. CHASE. We have a good part, right in our office.

Mr. MORSE. Mr. Morris, in this increased valuation of some seven million dollars, do you propose or do you want to capitalize that?

Mr. MORRIS. That is a matter that has not been determined.

Mr. WHIPPLE. Now, Mr. Morris, your increase in assets, they have increased tremendously in the last year or so; do you expect all those increases to be paid out of the earnings of the business? For instance, if you build a new plant, you have to have a new plant for the sake of operating your business, do you anticipate building that all out of your earnings, or do you intend to get outside capital in or invest more capital yourself?

Mr. MORRIS. We have no plains for refinancing at the present time.

Mr. WHIPPLE. Then everything you did build or any improvements you did make in your yards, or enlargements——

Mr. MORRIS. Of course, we borrowed considerable money; we have in the past, as you will see if you look over our statement.

Mr. WHIPPLE. Well, I understand that, but isn't that borrowed money largely for the purpose of working capital?

Mr. MORRIS. Well, I do not see how you can draw the line very well.

Mr. WHIPPLE. Well, the point is, is it your intention that any new additions to the plant should come out of the earnings?

Mr. MORRIS. I think it will have to.

Mr. MORSE. That is where you want it to come.

Mr. MORRIS. I think it will have to; I don't know where the money would be raised otherwise.

Mr. MORSE. Wouldn't it be possible to raise money for it by the flotation of stocks or bonds?

Mr. TIMMINS. You see, very largely these new buildings would be replacements, writing off one old building and building a new one in its place.

Mr. WHIPPLE. Yes; but you are increasing your capital all the time.

Mr. MORRIS. Very often, as in the town of St. Louis, we have just put up a building costing us around a million dollars. I guess it will cost us over that, and it replaced a building costing us a quarter of a million or $200,000 originally. Now, it had practically the same capacity; it had a few improvements in it, but in a general sort of way the old building would have answered the same purpose, but it wore out.

Mr. WHIPPLE. Your depreciation was not sufficient to charge that off?

Mr. MORRIS. It covered what we charged off, but did not cover the replacement value. That has been our trouble. It used to be if we spent a million dollars in a year, we would have five or six good buildings. Now a million dollars does not build anything.

Mr. MORSE. That is, from the point of keeping your plant at the same capacity. Now, if you increase the capacity of your plant, I mean to say where you get in a position where you can turn out more meat——

Mr. MORRIS. If we could get uniform run on our present facilities we could increase our capacity immensely.

Mr. MORSE. I do not get that.

Mr. MORRIS. If we had a uniform run, we could handle more stock on the present capacity.

Mr. MORSE. In other words, your run is seasonable.

Mr. TIMMINS. Spasmodic.

Mr. MORRIS. Not only seasonable but there are ups and downs.

Mr. CHASE. Two days in the week are heavy?

Mr. MORRIS. They have tried to change that. We have fair runs three or four days, but the weeks won't correspond.

Mr. MORSE. When is the busy season, if you have one?

Mr. MORRIS. On cattle in the fall, probably September and October and November.

On hogs, probably November, December, and January.

On sheep, along in October and November probably.

On calves, in the spring.

Mr. WHIPPLE. In other words, your plant is partly idle some of the time?

Mr. MORRIS. It is not idle but we could increase our gang. You take at the present time we have a gang that will kill 2,000 hogs in eight hours in our hog house; we could kill in the same house probably 4,000 or 4,200.

Mr. WHIPPLE. Then in other words, no matter how much you increase the business, it is not necessary, except for the purpose of replacement, to increase the size of your plant?

Mr. MORRIS. In certain departments we have had to, at different times.

Mr. MORSE. In those certain departments you have had to add additional space; do you expect those to be paid out of earnings? For instance, if you erect some new department, some entirely new department for taking care of by-products, do you expect that to be paid out of the earnings?

Mr. MORRIS. At the present time it would have to be paid out of earnings.

Mr. TIMMINS. Yes; because that is not material as compared with the balance of the business.

Mr. MORSE. Then there has been no material increase in the fixed assets of your business? That is, I mean to say, in land, buildings, and machinery?

Mr. MORRIS. Not compared to our earnings. We have each year been able to make an increase in our business a good deal more than our fixed assets—increase in fixed assets.

Mr. MORSE. Is that true of 1914 as compared to 1915, '16, and '17?

Mr. MORRIS. We have kept a bigger percentage of earned money in our business each year, I think.

Mr. MORSE. But you have not had to make any large investment on account of this big increase in business in these years?

Mr. MORRIS. We have had to make some increases. We have had to increase our canning, for instance, and we have had to make some increases that way, but in a general way the big part of it is replacements.

Mr. MORSE. How much do you think such increases amounted to in dollars?

Mr. MORRIS. I should say that 80 per cent of our fixed assets is replacement each year, wouldn't you, Mr. Timmins?

Mr. TIMMINS. Yes; I think so; take it from year to year.

Mr. MORSE. Isn't that pretty large?

Mr. MORRIS. I should cover that. I have not looked over our statement now, but I think that is—you will find those figures fairly conservative.

Mr. WHIPPLE. Now, you have stated that you thought this basis of computing the rate on the investment was a good one; that is, I mean to say, as laid down in the rules and regulations, that the business should be divided into three classes, and that you should be given the benefit in your by-products department of the same rate of return that anybody else was getting. In other words, in class 3——

Mr. MORRIS. Let me put it this way: I feel that we have to be put on a competitive basis.

Mr. WHIPPLE. Yes; that is, all you want is justice, as far as other people are concerned.

Mr. MORRIS. Yes; and not only justice in what we make, but in order to enable us to keep in business and keep our plant up in first-class shape and replace buildings whenever necessary.

Mr. MORSE. It is very necessary.

Mr. MORRIS. It is mighty necessary to our Government at the present time.

Mr. WHIPPLE. Now, you have considerable borrowed money invested in your business at the present time?

Mr. MORRIS. Yes; because our borrowed money—we always have an inventory higher than our borrowed money.

Mr. WHIPPLE. Yes; but that is true, you have a considerable amount of borrowed money in your business?

Mr. MORRIS. Yes; a tremendous amount.

Mr. WHIPPLE. Do you believe that borrowed money is entitled to the same return that your own investment in the business is?

Mr. MORRIS. I do.

Mr. MORSE. Why, Mr. Morris?

Mr. MORRIS. Any time you borrow money, you are taking bigger risks; if you take bigger risks, you are entitled to bigger returns. That is so, isn't it?

Mr. MORSE. That is economically true.

Mr. MORRIS. It has always been so, that a fellow that could safely borrow more money could make more money on it.

Mr. MORSE. What risk are you taking, Mr. Morris? What hazard?

Mr. MORRIS. Well, for instance, a bank won't renew our loans. We are not liable to that, as much, because we always keep ourselves in such shape that we are able to handle ourselves; but if a bank should refuse, a person would have to find the money and either pay a higher rate or sell some stock.

Mr. MORSE. But there is very little chance of a bank calling your loans.

Mr. MORRIS. Not while our credit is in the shape—not on Morris's credit.

Mr. MORSE. Your credit, though, is first class.

Mr. MORRIS. Absolutely.

Mr. MORSE. So there really is not any danger of that.

Mr. MORRIS. We won't borrow any money while we feel there is any danger.

Mr. MORSE. You have got sufficient assets, and your credit standing is such that you could borrow most any amount of money that is required to run your business; that is true, isn't it?

Mr MORRIS. I don't know.

Mr. MORSE. You have never experienced any difficulty, have you, in a normal money market?

Mr. MORRIS. Well, do you call this a normal money market?

Mr. MORSE. Why, considering that we are at war; yes.

Mr. MORRIS. I would not want to borrow much more money than we are borrowing at the present time.

Mr. MORSE. That is through your own caution, though? You could if you wanted to.

Mr. MORRIS. Well, you can not tell until you try.

Mr. MORSE. You haven't tried?

Mr. MORRIS. No. We haven't gone out and asked "Will any one lend us $100,000," or anything like that.

Mr. MORSE. What are the hazards, extraordinary hazards that this business may have, over that of other businesses of a similar character?

Mr. MORRIS. Well, the most important one is that we are handling a perishable product. Our product is worth just what we can get for it. There is not any standard market on the proposition. We have products down at branch houses and we have to sell it.

Mr. MORSE. What makes the market?

Mr. MORRIS. Supply and demand. We always have to carry so much product on hand. It is very hazardous at these prices.

Mr. MORSE. You do not have any products spoil on you, do you? Your refrigeration is perfect? You have been in this business a long time.

Mr. MORRIS. In a general way I would say that is so. It would be remarkable how little product does spoil, and most of the stuff that does spoil is due to delay in transit or some such cause as that.

Mr. MORSE. You have had very little of that?

Mr. MORSE. Practically nothing.

Mr. TIMMINS. Even without spoiling, it will deteriorate, it will depreciate.

Mr. MORRIS. We will send a car of beef to New York; it is delayed a few days in transit; the beef is better to eat. You take the beef I eat, it is beef that has been aged a little, and yet it has a different appearance, and they buy it cheaper.

Mr. MORSE. I know; but the beef is not spoiled, there is no loss there?

Mr. MORRIS. Yes; there is a loss. They buy it a couple of cents a pound less than if it was fresh beef.

Mr. TIMMINS. As Mr. Morris says, it may be better for eating.

Mr. MORRIS. From an eating standpoint I would rather eat it.

Mr. TIMMINS. Its general appearance is such that people won't buy it.

Mr. MORSE. Well, you people know it is liable to do that. It has happened heretofore right along?

Mr. MORRIS. There is no margin of business to take care of it.

Mr. MORSE. It has not happened any more lately than in the past?

Mr. MORRIS. Don't get me in a place where I have to criticise our railroad direction.

Mr. MORSE. You can do it if you want to. They say just criticism is helpful.

Mr. MORRIS. We have had more trouble than we ever had.

Mr. MORSE. You have had trouble lately?

Mr. MORRIS. Yes.

Mr. MORSE. To what extent?

Mr. MORRIS. I should say this last year is the worst year we have ever had in that connection.

Mr. MORSE. How much has it increased, in per cent?

Mr. MORRIS. I could not give you that without figures.

Mr. MORSE. Just an idea about it?

Mr. MORRIS. It is almost impossible to check the figures, because as we say, there is no set market for any product. Something coming in a little late, it will sell at a quarter less; I can not tell whether it was sold at a quarter less because it was a little off—not spoiled, but just old, and it has not got the appearance—or whether it is poor quality.

Mr. MORSE. Well, outside of present conditions caused by the war and transportation facilities, there are no hazards in your business worth mentioning, are there?

Mr. MORRIS. Oh, yes; I think it is the most hazardous business in the world.

Mr. MORSE. Why so?

Mr. MORRIS. Why, at the present time we have got, say, 60,000,000 pounds of pork on hand. That is liable to go down a cent a pound in a day.

Mr. MORSE. I know, but isn't that the ordinary risk of the business?

Mr. MORRIS. That is an unusual hazard.

Mr. MORSE. That is a risk of the business.

Mr. WHIPPLE. Have you any uninsurable risks that you could not insure?

Mr. MORRIS. You could not insure your stock against going down in value.

Mr. WHIPPLE. I do not mean against fluctuation in value.

Mr. MORRIS. It is the most fluctuating market in the world.

Mr. WHIPPLE. I mean outside of fluctuations in market value. We can throw that out of this case altogether. Are there any uninsurable risks outside of fluctuations in market value; all your plants and machinery are insurable?

Mr. MORRIS. Yes.

Mr. WHIPPLE. And your stock on hand is insurable?

Mr. MORRIS. Yes.

Mr. TIMMINS. Not against depreciation.

Mr. WHIPPLE. No; not against that.

Mr. MORRIS. Against fire, it is.

Mr. WHIPPLE. It is against fire?

Mr. TIMMINS. Yes.

Mr. WHIPPLE. You have no tremendous hazards such as some other businesses have?

Mr. MORRIS. I think it is the most hazardous business in the world.

Mr. WHIPPLE. You mean from a speculation standpoint?

Mr. TIMMINS. Every standpoint.

Mr. MORSE. You mean, Mr. Morris, the hazard is confined principally to the fluctuation in the market?

Mr. MORRIS. Yes; and say the demand is going to be——

Mr. MORSE. There is no other hazard but that?

Mr. MORRIS. You take pork at the present time; that pork is going to be sold next fall. We don't know whether it is going to be sold higher or lower. If there is a panic and hard times, people don't have money to buy it. If there are a lot of people in the Army they don't use as much in the Army as in civilian life and it cuts off a large demand. If we do not have boats to ship stuff to England, we do not know what we will do with it. It is a business that changes every day, and to me it is the most hazardous business I know of. It is certainly the most hazardous business I am interested in.

Mr. MORSE. From your standpoint the hazard is simply in the fluctuation of prices, and not from any other cause? It is a staple business with no hazard whatever.

Mr. MORRIS. No; I do not agree with you.

Mr. MORSE. Except the fluctuation in prices.

Mr. MORRIS. No; it is a perishable product in the first place. The product when bought is to—you take beef now, you can freeze a certain amount of beef, but ordinarily there is no demand for frozen beef. With this war on, it is a special condition; there are certain grades that we can not slaughter and freeze; ordinarily if we buy the cattle we have to sell the stuff at the best prices we can get; we can get only a figure much less than the replacement price; we know that it is being sold too cheap, but we have to sell it.

Mr. MORSE. But on account of perfect refrigeration——

Mr. MORRIS. Mr. Morse, ordinarily you can not sell frozen beef; carcass beef, in this country; there are no exports to Europe. At the present time the freezers are pretty well filled up. Very often we hit a bad market and we would like to freeze stuff and we know we could get our money out of it. We would like to freeze it and keep it. We can not get freezers for it. In that case our branch houses have to keep the product chilled and not frozen.

I do not know whether you realize that our domestic beef business is done on a chilled basis and not frozen at all. That is strictly perishable, and it simply has to be sold, that is all; it is very often sold at a good deal less than replacement or any prospect of replacement.

Mr. MORSE. That is the only thing you term a hazard of the business?

Mr. MORRIS. No; I think that anyone that has the amount of money borrowed that any packer has, is running a hazardous business in itself.

Mr. CHASE. You are not subject to changes in fashion that some businesses are. You are not subject to destructive explosions like the Dupont Powder Co.

Mr. MORRIS. Well, we have been very fortunate that way. Of course, packers have had lots of fires and bad fires, and this is a war industry. It is essential to the war and we hope for the best in the future.

Mr. TIMMINS. All of those things are insurable?

Mr. WHIPPLE. Those are all insurable risks.

Mr. MORSE. You are insured, Mr. Morris, covering everything that is insurable?

Mr. MORRIS. I question if we are insured on all explosions.

Mr. MORSE. You are insured on everything where you can get insurance, is that true?

Mr. MORRIS. Some of our insurance we carry ourselves. We could insure on all explosions, I suppose; I doubt very much if we do.

Mr. TIMMINS. We do not insure from explosions.

Mr. MORSE. Do you carry your own insurance or insure in the regular line fire insurance companies?

Mr. MORRIS. Both; at times we carry our marine insurance, certain parts of it.

Mr. MORSE. That is, covering stock; covering your product in the process of shipment abroad to foreign countries?

Mr. MORRIS. Yes.

Mr. WHIPPLE. Now, Mr. Morris, you stated you believe that borrowed money should have the same rate of return as your own investment. Now, what is your average cost of borrowing money to you?

Mr. MORRIS. At the present time?

Mr. WHIPPLE. Yes.

Mr. MORRIS. I suppose a little over 6 per cent—6¼ per cent.

Mr. TIMMINS Yes; it will run up close six and a half per cent.

Mr. WHIPPLE. Well, now, could you cover that borrowed money by a bond issue?

Mr. MORRIS. We have a bond issue.

Mr. WHIPPLE. Well, I mean by another bond issue, by an additional bond issue? Would there be any risk there?

Mr. MORRIS. If we did it would cost us more than six and a half per cent at the present time.

Mr. MORSE. How is that?

Mr. MORRIS. I just base it on the experience of some of our competitors.

Mr. MORSE. There is a legitimate reason why it should; I wanted to see what your idea is.

Mr. MORRIS. Because the market is higher than that; money is worth more than six and a half to-day.

Mr. MORSE. You would have to sell the bonds at a discount?

Mr. MORRIS. A 6 per cent bond—decidedly.

Mr. MORSE. How much discount do you think you would have to sell it at?

Mr. MORRIS. That is a matter of just personal opinion.

Mr. MORSE. I would like to get your personal opinion.

Mr. MORRIS. I would say somewhere between 90 and 92.

Mr. MORSE. I would like to buy some of your bonds at 92.

Mr. WHIPPLE. Now, considerable of your capital in your business is represented by the accumulated earnings, as shown by your surplus account?

Mr. MORRIS. Practically all of it is.

Mr. WHIPPLE. Do you consider that those accumulated earnings are entitled to the same rate of return as your original investment in the business?

Mr. MORRIS. Certainly.

Mr. WHIPPLE. In other words, in the original investment, where you take a big chance in starting up something new, you think that

should be given the benefit of only the same return as your present investment, where the business is in an assured condition, where your market is established?

Mr. MORRIS. I do not believe any packing business is in an assured condition.

Mr. WHIPPLE. In other words, you think there is some danger in the packing business going down?

Mr. MORRIS. We have a lot of stock that is high-priced stock; what is going to happen after the war I don't know.

Mr. WHIPPLE. You believe you are entitled to a profit on your borrowed money by reason of taking that risk?

Mr. MORRIS. As a maximum profit, I do; I feel that a maximum should be over a guaranteed profit. You have got everything to lose and nothing to win on a maximum.

Mr. MORSE. How much profit do you believe you are entitled to on borrowed money? What per cent?

Mr. MORRIS. I do not quite get your question on that.

Mr. MORSE. I say, how much profit on borrowed money do you think you are entitled to? What per cent above the cost of the money?

Mr. MORRIS. So far as myself, personally, if I did not figure I could make 4 or 5 per cent on it, I would not take the responsibility and hazard of it.

Mr. MORSE. Four or five per cent above its cost?

Mr. WHIPPLE. Take it at 5 per cent, you are paying 6½ per cent; that would make 11½ per cent on your borrowed money; then you feel the borrowed money you have in class 1 should bring 11 per cent instead of 9?

Mr. MORRIS. As I understand, that ranges according to what we pay for our money. Isn't that correct, Mr. Chase?

Mr. WHIPPLE. Yes; I understand there is a provision in there that takes care of the extra excess.

Mr. CHASE. The excess over 5 per cent?

Mr. WHIPPLE. The excess over 5 per cent. In other words, you agree with the regulation on that score?

Mr. MORRIS. Oh, yes; I think there has to be a regulation on that score. Otherwise, for the money there is in it, I would not want to borrow the money and take the hazard.

Mr. WHIPPLE. Well, from your line of testimony all the way through, I take it that you believe that the rate of return should be governed by the amount of capital in your business and not on your net worth in the business? In other words, that you are entitled to a return on all your assets?

Mr. MORRIS. I do not see that it matters very much where you get your assets, as long as you get them.

Mr. WHIPPLE. Your net investment in the business you figure would have nothing to do with the return at all?

Mr. MORRIS. No. If I can operate a business with less net investment and borrow money when I need it, I am taking that much bigger risk and I am entitled to that much greater return of profit. Isn't that correct, Mr. Morse?

Mr. MORSE. Economically; yes.

Mr. MORRIS. Practically, isn't that correct?

Mr. WHIPPLE. That is what we want to get your ideas on. There are all sorts of ideas on that subject.

Mr. MORRIS. I do not see how else they could figure it, personally.

Mr. MORSE. Well, when I stated "economically," Mr. Morris, I meant to qualify the matter a little by the consideration that the packing industry is a pretty well established business and it is my personal opinion you would have no trouble in getting all the capital you wanted.

Mr. MORRIS. I do not believe that is hardly a fair statement of the condition of the packing industry.

Mr. MORSE. Mr. Morris, you practically have said that there is no hazard in the packing industry except that which you claim comes through price fluctuation. Can't you think of where you have made losses, uninsurable losses, some time in the past?

Mr. MORRIS. I can think of quite a number. I can remember of two floods that we have had.

We have been without water at our plants and have had to close them down temporarily on that account.

Mr. MORSE. That is not serious, though, is it? Your close-down was of very short duration?

Mr. TIMMINS. The floods at Kansas City and East St. Louis were very disastrous to us.

Mr. MORRIS. Last winter we were without salt, or a sufficient amount of salt, for quite some time.

Mr. MORSE. What do you call "quite some time"?

Mr. MORRIS. Off and on for some two months. It sounds foolish, doesn't it?

Mr. MORSE. I am frank to say I do not call that an extraordinary risk of the business. That is only one of the incidents incidental to the business; something you can provide against by laying in a stock of salt.

Mr. MORRIS. It is something we have never had come up before.

Mr. MORSE. But in case of a flood, where you have had losses, that might be considered.

Mr. MORRIS. Mr. Morse, if a packer carried enough inventory on hand for all his supplies there would not be money enough in the world to carry his business. Last winter was the first time we had an insufficient amount of salt. It is something you could not anticipate.

Mr. MORSE. When was it you had losses through floods?

Mr. MORRIS. About 1906 and 1907.

Mr. TIMMINS. We had two floods in Kansas City, one about 1904, it seems to me, and another several years later; I don't just remember the date.

Mr. MORSE. How much did you lose in 1904 through this flood?

Mr. TIMMINS. The first one was not as heavy as the last.

Mr. MORSE. How much was it?

Mr. TIMMINS. Oh, it might have run up close to, say—in that particular flood, $50,000. I think the next one would be very, very much in excess of that; I am not sure of the figures.

Mr. MORSE. How much?

Mr. TIMMINS. I would say it had run over $100,000. We had the same trouble—that is, we had a flood in East St. Louis.

Mr. MORSE. What year was that?
Mr. TIMMINS. I am not sure of the years of these floods.
Mr. MORSE. How much do you think you have lost there?
Mr. TIMMINS. I should think that would run up to $100,000, too.
Mr. WHIPPLE. You have no hazard such as where they have standing timber, uninsurable, and a fire in that timber may cause them a loss of three or four or five millions of dollars—nothing like that to provide against.
Mr. CHASE. Mr. Morris, is a pronounced drought an extraordinary hazard in the business?
Mr. MORRIS. That makes a very big run of unfinished cattle for the time being, and means that the plant in the vicinity where the drought is, the country tributary to that plant has been cleaned out. The plant has nothing to operate on afterwards. We have had that experience at a number of our plants.
Mr. CHASE. In a case of that kind how much would you lose?
Mr. MORRIS. I do not see how you can say very well. You take our Oklahoma plant, it has probably been averaging killing 4,000 hogs a week.
Mr. TIMMINS. Yes.
Mr. MORRIS. It could kill 16,000 just as well. How much we are losing on that it is pretty hard to say.
Mr. MORSE. You are losing the overhead and profits, that is all you lose; you don't lose any assets.
Mr. MORRIS. We do not lose any assets, but our organization has to go on just the same.
Mr. TIMMINS. You are losing your surplus.
Mr. MORRIS. Our expense is just the same.
Mr. MORSE. You lose in overhead and profits and in nothing else.
Mr. TIMMINS. You make an absolute loss on account of it.
Mr. MORSE. Naturally, but the loss is confined to that.
Mr. WHIPPLE. Wouldn't the drought be reflected in increased prices?
Mr. TIMMINS. Not necessarily. The drought might not happen at other places, but the plant is operating and we would have an absolute loss. You do not make it up anywhere.
Mr. WHIPPLE. In other words, you figure the idle time in your plant is a material factor to you?
Mr. TIMMINS. Oh, yes.
Mr. WHIPPLE. Not alone with respect to the overhead, but in the unevenness in the runs of cattle which you stated to me in the beginning.
Mr. TIMMINS. It is.
Mr. MORSE. In case of a shutdown in any particular locatity you would discharge those workmen and lay them off?
Mr. MORRIS. Suppose you can. A plant built for 3,000 or 4,000 hogs a day can not economically run on 400 or 500 a day.
Mr. MORSE. So you would not make much loss on labor.
Mr. MORRIS. Yes. You would make an immense loss on labor. It costs you twice as much to kill 300 or 400 a day as to kill 3,000 or 4,000.
Mr. MORRIS. That comes in on your overhead.
Mr. MORSE. From a labor standpoint?

Mr. MORRIS. Your overhead expenses on account of the small killing.
Mr. MORSE. Your overhead, as I have been trying to point out, does not include your labor. You have two points; the overhead includes your general supervision, etc. Your labor includes what is actually paid to those men doing the work.
Mr. MORRIS. You have depreciation on your plant just the same.
Mr. MORSE. That is part of the overhead; the labor I do not think is.
Mr. MORRIS. And your machinery?
Mr. TIMMINS. Insurance.
Mr. MORSE. Insurance and things of that kind. You do not have to pay your labor because you discharge them.
Mr. MORRIS. You do not pay them any more per hour; it actually costs you twice as much for the labor item alone, leaving alone your overhead, where you are working on a floor and killing five or six hundred hogs a day where you are built for three or four thousand. You can not arrange your men economically on the floor to kill three or four thousand hogs and kill five or six hundred economically.
Mr. CHASE. The same thing applies to hog cholera as to drought?
Mr. MORRIS. Oh, yes; or crop failure.
Mr. MORSE. Now, Mr. Morris, in any business the cost of the product manufactured consists practically of three elements—material, labor, and overhead expense. Can you determine on that basis the cost of your products in your various departments?
Mr. MORRIS. I can determine it very accurately.
Mr. MORSE. How can you determine that very accurately, or how do you, I should say, how do you determine that very accurately?
Mr. MORRIS. We have the actual cost; that is, the raw material; we have the actual cost of it.
Mr. MORSE. Well, what is the actual cost of your raw material?
Mr. MORRIS. What we pay for it.
Mr. MORSE. What you pay for it?
Mr. MORRIS. Yes.
Mr. MORSE. Now, when that raw material is worked up and goes into various departments what elements enter into its cost? How do you mean?
Mr. MORRIS. Let's just take some material and follow it through, if you like.
Mr. MORSE. Suppose you buy a steer at that high price of $17.90 I saw in the paper this morning; you pay your $17.90 and you start in to kill the steer.
Mr. MORRIS. Yes.
Mr. MORSE. And to cut it up and distribute it in your various departments. Now, if you will trace for me the process that that steer will go through and what is added into it in the way of cost right straight through and how you determine those costs—I think you can answer it—I think you will answer my question.
Mr. MORRIS. I will do it, subject to correction from Mr. Timmins.
Mr. MORSE. Mr. Timmins can answer it if he wants to.
Mr. MORRIS. He can probably give it more accurately than I can.
Mr. TIMMINS. The expenses added would be based on the last month or two or three months' period—that is, the cost of labor as

an overhead—and those items are charged on a per hundredweight basis against the beef when it is killed. You have the cost of your steer; you dress it and you probably have 60 per cent yield to it, and you allow for all the offal.

Mr. MORSE. You add 60 per cent to it?

Mr. TIMMINS. No; there is 60 per cent of yield of beef, say, approximately.

Mr. MORSE. Yes.

Mr. TIMMINS. Now, you say that $17.50 or $17.90 is the cost of the steer.

Mr. MORRIS. Yes.

Mr. TIMMINS. On a per hundredweight basis, you have got to add to that the cost of killing, the cost of chilling, cost of labor; all those are as near actual as we can get them, based on what the expenses have been running for the last month or two.

Mr. MORRIS. Then I understand you to say that you do not charge the actual cost against the steer. Suppose, for instance, you buy the steer, you pay $17.90 for him, and then there is certain labor in killing him, cutting him up, and sending the beef products from the steer to the various departments. Don't you charge for that labor?

Mr. TIMMINS. Yes, absolutely.

Mr. MORSE. Well, how do you ascertain that labor charge?

Mr. TIMMINS. Right from the pay rolls; but you do not get that before the steer is on the market. By the time you get all those figures together, it is on the market and sold.

Mr. WHIPPLE. You were speaking of arriving at exactly the cost.

Mr. TIMMINS. Yes.

Mr. MORRIS. We sell it for what we can on the market.

Mr. MORSE. Do you use the actual cost, the money paid, or some other cost?

Mr. TIMMINS. The actual cost—the money paid.

Mr. CHASE. Don't we need to determine first whether we are talking of the beef cost or the test cost?

Mr. MORRIS. Yes, we ought to; the test cost is based on actual figures as they have been actually determined in the last two or three months.

Mr. CHASE. In the beef account you use the actual expenses for that period?

Mr. TIMMINS. Yes; when you open the beef account, you charge it with the actual cost of the labor, which you have paid out, all your expenses as they come into the account, and you sell your products and transfer the hides, for instance, to the hide account at market value.

Mr. MORSE. You transfer that at market value?

Mr. TIMMINS. Yes; the difference is profit or loss on the beef account. In the actual accounting, getting at the other feature, where you are trying to arrive at the cost of your beef, where you say that beef ought to sell at so much, if it costs $17.90, you know you would get 60 per cent of that—say a thousand-pound steer, you would get 600 pounds of beef. Now, you have got $17.90, or if it is a thousand-pound steer, that would be $179. Now, that—now

you transfer from that or give that amount credit for the hides, feet, and offal.

Mr. MORSE. Now, at what price?

Mr. TIMMINS. As near the actual as we can get it, right on the market.

Mr. MORSE. Let me finish my question. At what price will you charge or credit, I should say, what price would you credit these different commodities like the hide and tallow and so on?

Mr. TIMMINS. As near the actual market as we can establish it; hides, for instance, you take the hides, there is an established price on native hides to-day.

Mr. MORSE. What makes that price?

Mr. MORRIS. Right now the Government has set a maximum and we can get the maximum, but there are trade very often in hides; pretty nearly every day there are transactions.

Mr. MORSE. You make a profit when you credit in these different commodities?

Mr. TIMMINS. No; that is transferred right at that market price.

Mr. MORRIS. It is credited to the beef.

Mr. MORSE. You make a profit there?

Mr. MORRIS. No; not a penny.

Mr. MORSE. Because these commodities cost you less than the market, do they not?

Mr. TIMMINS. No; we are taking the selling market, you see. If we can sell hides to-day for 28 cents, that is the price we would establish as the transfer price on those hides.

Mr. MORSE. But you do not transfer so many pounds of hides at 28 cents; you take 28 cents and make certain deductions for curing?

Mr. TIMMINS. Only for the curing, and we try to make it actually the expense of curing, and that is based on our past experience, so your hide account should break even outside of fluctuations in the market. Maybe your expenses increase or decrease, but you will see from the hide account just about what it is.

Mr. MORSE. You make a profit and loss there when you credit back to the beef account?

Mr. MORRIS. Not until the stuff is sold.

Mr. TIMMINS. No; you don't make any profit there. You transfer it at the market.

Mr. MORSE. You make a theoretical profit?

Mr. TIMMINS. No; you don't. You see, if you are taking $17.90, and credit that $179 with the hides, fat, and offal at what you figure the market price to be, all you are really going to get for those goods, and deduct that, suppose that is $50 or $25—take out that $25 and you have $154 for the cost of the beef.

Mr. MORSE. So you decrease the cost of the beef by that much?

Mr. TIMMINS. No; you take a steer costing $179, and then say the hide and fat and offal is worth $25 or $30, and add to that the cost of killing, say $2.50 a head, and add the $2.50 a head on it, and make that $156.50, and divide the $156.50 by the 600 pounds of beef, that will give you the cost of the beef, and we try to get that just as actual as we possibly can.

Mr. WHIPPLE. Now, do you know whether that is the method followed by all these meat packers?

Mr. TIMMINS. I do not.

Mr. CHASE. Substantially, yes. I can answer that.

Mr. WHIPPLE. Now, this market value of by-products—with the hides, I understand you have a certain maximum on that. Now, on the other by-products, how is the market for those determined? Is it an actual market, or do you people control the market in such a way that it is difficult to determine the market value of that by-product?

Mr. MORRIS. Those things that are strictly perishable products, they are worth just what we can get for them. Sometimes there is a shortage and a big demand and prices go up, and sometimes there is a lot of them and not much demand and prices go down.

Mr. TIMMINS. Whatever those market prices are, and we can sell that product for, is the price we use in making this transfer.

Mr. WHIPPLE. All these by-products you could sell in the open market?

Mr. TIMMINS. Well, you take oleo—all the larger products, you can.

Mr. WHIPPLE. And there are dozens—there are many people not interested in your business who are in that business of buying those things up all the time.

Mr. MORRIS. You take oleo oil, the biggest manufacturer of oleomargarine does not own a packing house or a slaughtering house.

Mr. WHIPPLE. Then the market value on those products could be very well established?

Mr. TIMMINS. On all those standard by-products, of course you always have this difficulty to contend with—it works both ways: When you are taking off your hide to-day, or taking off your oleo to-day, you establish it on to-day's market. If the price goes down on it, that would be a loss or a gain.

Mr. MORRIS. On a steady market, if prices are higher at the end of the year, they make the natural gain, according to how much they have been carrying it at.

Mr. TIMMINS. Fertilizer is quite a big item.

Mr. MORRIS. We only clean that up probably once a year.

Mr. TIMMINS. Fertilizer is a commodity that will depend on the cotton crops. If the cotton crops have been good last year, everybody wants to buy fertilizer. If you have had a poor crop, and not much money down there, your ammoniates will be very low. All of those are conditions that run for six-month periods. When you sell your beef you establish the price of beef to-day, and say it has cost you 25 cents a pound, that is figuring that those prices of by-products will remain even, but it is six months before you can determine that, in many instances.

Mr. WHIPPLE. Mr. Timmins, you know that accountants do not like market values placed upon by-products?

Mr. MORRIS. That is the trouble with accountants. They can not realize that we are handling perishable products, and it has to be listed for what it is worth.

Mr. WHIPPLE. Now, do you think it would be possible to establish a cost system in the packing industry, where the actual cost of each commodity from a steer could be ascertained without using the market values?

Mr. TIMMINS. I do not see how you can, for the simple reason that you have the price of your steer. You have to determine what the value of the certain product is. Ordinarily it is the price of your beef which you have. How are you going to establish the cost of your hide or your fat or fertilizer?

Mr. MORRIS. Mr. Morse, if you take a chart that shows, you will find that the per cent you get for your hide, compared to your total cost of beef, will vary very materially in different years, and the same is true with your fertilizer and your pork; different cuts one year are sometimes high; one year hams are high and bellies are low; the other year bellies are high and hams are low.

Mr. MORSE. I am willing to be enlightened on that proposition.

Mr. MORRIS. There is not any direct ratio between the different products. They are perishable products. You can not say that bellies are worth 2 cents more than hams.

Mr. TIMMINS. Peoples' tastes change. I remember 25 years ago when I came into the packing business—it has been more than that—hams sold at quite a premium over bacon, and to-day bacon sells for more than ham.

Mr. MORRIS. I have seen lard sold for less than hogs on the hoof. We are selling bellies to-day for less than hogs, and probably next fall we will get 4 or 5 cents more for them than for hogs on the hoof.

Mr. MORSE. Then, as I take it, you think it is impossible to build a cost system based entirely upon the exact cost?

Mr. TIMMINS. I do not see how it can be done, Mr. Morse.

Mr. MORSE. You do not see how it can be done?

Mr. TIMMINS. No.

Mr. MORSE. And you at the present time, as far as costs are concerned, you are doing the best you can?

Mr. TIMMINS. I think we are.

Mr. MORRIS. We feel we have a very accurate cost system.

Mr. TIMMINS. We feel we are doing the very best we can with the conditions we are dealing with.

Mr. MORRIS. Dealing with perishable products as we are.

Mr. MORSE. You can see that your system is bound to either take a profit or loss, as between departments, can't you?

Mr. TIMMINS. Yes; that will be only in the fluctuation of the market though.

Mr. MORSE. It will only be in the fluctuation of the market?

Mr. TIMMINS. Yes.

Mr. MORSE. You do see that you are either taking a profit or loss, as between departments, when you consider market values?

Mr. TIMMINS. Absolutely, but at the same time you take these class 1 accounts, for instance, all the accounts in No. 1, and you are adding all of those in to get your cost or profit or loss on these, so you are not in that sense assuming a profit or loss.

Mr. MORRIS. You are liable to have a loss or a profit.

Mr. TIMMINS. You are, outside of that group of items, which is all a part of the same business.

Mr. MORSE. You really can not tell exactly as to the real cost between these items, even in the various departments in class 1, or in the various departments of class 2 or 3 or an interchange between departments?

Mr. TIMMINS. I think we can absolutely determine that for the reason that take your butterine account as an illustration of that very point, and you have a market for oleo all the time. You have dozens of oleomargarine manufacturers buying that oleo, not only here, but in Europe, and you have established prices on that. We take our oleo department here and we treat it just the same as outside business.

Mr. MORRIS. When they can buy cheaper from some one else than from us, they buy it.

Mr. MORSE. Perhaps in your butterine department you may be able to determine the exact cost more absolutely than in other departments. I can see that in these other items it is an impossibility to ascertain the exact cost. Now, I am talking pure theory, Mr. Timmins.

Mr. TIMMINS. I think that is so on certain departments.

Mr. MORSE. Even where it is class 1 or 2 or 3?

Mr. TIMMINS. No. For that reason we would not contend that departments such as you mention should be taken out of class 1. They are strictly packing-house items then. The only point we have ever contended for taking certain departments out of class 1 and putting them into 2 or 3 are departments where you can absolutely treat them as separate units of your business, and where you can be on the same basis and are on the same basis with the man in the same line of business outside. I do not think we would want to go beyond that. I do not think we would ask to go beyond that.

Mr. WHIPPLE. I think we have your theory on that. There is one point here: You have spoken of hides and oleo. It seems that the market can be established for that. Now, what about the other by-products; is there a free market for your other by-products, for instance your hoofs, your glue stock and blood, and certain kinds of bone and hair?

Mr. TIMMINS. That all goes into our fertilizer account, and we contend that fertilizer is a part of class 1. We would not ask for that to be taken out of class 1.

Mr. WHIPPLE. Well, in the case where you manufacture that or prepare that to stages beyond which the packers' province goes, you are entitled to a larger percentage of profit, and wasn't that taken into another class?

Mr. TIMMINS. Yes; but that is what you call manufactured fertilizer. We do not do that here; in our fertilizer, we manufacture that raw material, blood, tankage and the bones, and there is an established market when you get to that point. When you ship that out to a manufacturing plant—that is, where they manufacture commercial fertilizers—then you are placing that department of your business in the same group with the plant—shall we say—what is that big southern fertilizer company—the Virginia-Carolina Chemical Co., for instance you are placing it on the same line as that; you are charging your tankage and ammoniates to your plant at the same price you are selling to these people. We do not use all our products. We sell some of them.

Mr. WHIPPLE. In your case there is no reason why the cost in these various departments can not be accurately established.

Mr. TIMMINS. I think they can be fairly accurately established.

Mr. WHIPPLE. You do not think you can determine the profit on your various departments accurately?

Mr. TIMMINS. I think we do.

Mr. WHIPPLE. You have such a system as will show those various things?

Mr. TIMMINS. I think so.

Mr. MORSE. Mr. Timmins, you use the words, "fairly accurate." That is not accurate; you say fairly accurately; in other words, this is more or less of an estimate. It may be an estimate that is near or fair, and I presume you are doing the best you can.

Mr. TIMMINS. I will withdraw that if you want us to, Mr. Morse, and I will say they are accurate. We ar rather conservative; I do not like to use an absolute statement and say it is to a cent, that it is actual, it won't vary—that it won't vary a cent this way or a cent that way, but I am willing to withdraw that and say that it is actual because we are transferring those products at the same price that we are selling the same things to other dealers in the same line of business, and I think that is the only way you can establish the real conditions in any business.

Mr. WHIPPLE. Well, you may have worked out a scheme where you think they are accurate, but as an actual fact they are not accurate when you take the definition of the word, "accurate" from the dictionary, because you are using a mere estimate.

Mr. TIMMINS. No; we are not using an estimate. I do not think where I sell the oleo or fertilizer or hides——

Mr. MORSE. Well, eliminate oleo.

Mr. TIMMINS. Take hides, oleo, fertilizer, any of those commodities, if we are selling more of those commodities to outside dealers than we are using ourselves, we charge our own people at the same prices we are constantly and daily selling to the other plants. I say it is actual. We are on exactly the same basis that those outside plants are. I say that is actual.

Mr. MORSE. Mind you, Mr. Timmins I am not criticizing you.

Mr. TIMMINS. I know you are not, Mr. Morse.

Mr. MORSE. I only wanted to ascertain if it could be possible to bring those costs to actual figures. Now, I am using "actual" as the definition in the dictionary gives it.

Mr. MORRIS. I believe our costs will be actual, if there is such a thing as actual cost.

Mr. TIMMINS. I should say, Mr. Morse, our costs are actual, so far as the division of these various accounts in the various groups are concerned.

Mr. CHASE. Not as between departments necessarily.

Mr. TIMMINS. Not as between departments in the same group, you see. For instance, fertilizer, I am not going to say you can establish an exact price on which you can transfer the raw stuff from your animal to fertilizer to the fertilizer account, and therefore fertilizer must stay in group 1 with what we call our tankage account, you see. But when you come to your manufacturing department of fertilizer, your commercial fertilizers, then I say that is actual. There is a difference there. You can see where that would come in, Mr. Chase.

Mr. MORSE. As long as we are on this question of classification, I would like to ask Mr. Morris if he thinks the stockyards should stay in class 3.

Mr. MORRIS. I should think so.

Mr. MORSE. You think they should be in class 1?

Mr. MORRIS. No; I think they should stay in class 3. I do not see what that has got to do with the packing business.

Mr. MORSE. The packers control the stockyards, don't they?

Mr. MORRIS. Some packers own some stock in some stockyards.

Mr. MORSE. Do you own some stock?

Mr. MORRIS. Morris & Co. owns a very small amount of stock in the stockyards.

Mr. TIMMINS. A very small amount.

Mr. MORSE. You do, however, own some?

Mr. MORRIS. Morris & Co., yes; I do not believe Morris & Co. own and control any stockyards. Do they, Mr. Timmins?

Mr. TIMMINS. No.

Mr. WHIPPLE. I think probably it would be better to stay off the question of stockyards. Then you feel, according to the rules provided and laid down in the rules and regulations, that you can accurately determine the cost?

Mr. TIMMINS. I believe so.

Mr. WHIPPLE. Of course, with some arbitrary method of prorating overhead, such as administration and general expense.

Mr. MORRIS. Let's call it "some fair method," rather than some arbitrary method.

Mr. WHIPPLE. Well, it has got to be somewhat arbitrary. Some fair method—do you believe that method of distributing overhead would be the same with all companies, or would it vary with the particular companies?

Mr. TIMMINS. I should think that would have to vary according to what per cent they did in each department. We may kill twice as many hogs as cattle and again we may kill twice as many cattle as hogs.

Mr. WHIPPLE. What is your basis for distributing your overhead?

Mr. TIMMINS. Shall I go into that in detail, Mr. Whipple?

Mr. WHIPPLE. No.

Mr. MORSE. We haven't got time.

Mr. WHIPPLE. I just want to get a general idea for the record.

Mr. TIMMINS. Starting with our selling; our salesmen, they are charged directly to the departments interested. Such other parts of our organization here in this office which can not be so distributed are charged to each department on a sales basis, and that would take in our credit department, our railroad departments, our accounting department, and the pay roll outside is charged actual figures such portions as can not be determined—receiving clerks, shipping clerks, police, watchmen, fire protection, all of those kinds of things on the outside are charged to the departments on the basis of the outside pay roll. All insurance is charged at actual. Does that about give it to you?

Mr. WHIPPLE. Yes; in other words, you believe that the entire overhead expense which can not be directly apportioned, that each group or each expense should have its own little method of distribution depending on the conditions. For instance, hogs, the salaries for

one company might not necessarily agree with the salaries for the other companies, and in the various departments it need not agree with the various departments of the other companies.

Mr. MORRIS. I do not believe that you can mix salaries a great deal.

Mr. WHIPPLE. I do not think so either.

Mr. MORRIS. We try to keep our salaries in line with what we think is reasonable for them. That is about all we could do.

Mr. WHIPPLE. Then you believe the distribution of overhead in each case should depend on the merits of the case?

Mr. TIMMONS. I rather think so.

Mr. MORSE. Mr. Morris, whenever we use the word "arbitrary," we do not mean that in any offensive sense; we simply use the word according to the definition given for it in the dictionary. Now, an arbitrary method may be very fair and it may be very unfair. We do not assume you have been unfair.

Mr. MORRIS. What I am trying to bring out is that our method is fair.

Mr. TIMMONS. Just so we understand it the same way.

Mr. WHIPPLE. I think Mr. Timmons, as an accountant, will understand that term. All overhead is more or less overhead; you can not say that any man's salary not working in the pig pen, should be charged to the pig pen; you only assume it should, and have worked it up that way following some line of reasoning of your own.

Mr. MORSE. It may be very correct, for all we know.

Mr. WHIPPLE. Now, about your subsidiary companies, do you think the same methods can be followed with the subsidiary companies as is followed with the parent, and that the accounts of the subsidiary companies can be so combined with those of the parent companies that it will show the whole accounts of these three companies?

Mr. TIMMONS. I do not know that I have studied that.

Mr. MORRIS. We are not affected very much with that, are we, Mr. Timmons?

Mr. TIMMONS. Well, of course, what he means by subsidiary companies would be, say, Joseph Stern, or the Morris Fertilizer Co., or William F. Mosser Co., whether we could consolidate and make up one consolidated statement for them all. I do not know but that that could be worked up into a consolidated statement on a pretty fair basis.

Mr. WHIPPLE. Don't you believe now that this question is up, you people like this regulation, that if that point were established, and those accounts so consolidated with the parent company—not necessarily consolidated on the books, but the books gotten in such shape at any time that you can make up a consolidated statement, and that would have to be so if this regulation were going to continue—that those various books should be brought in line with the books of the parent company, so that the whole company could be consolidated at any time, from the viewpoint of these regulations?

Mr. TIMMONS. I can see no objection to that.

Mr. WHIPPLE. Can you see any advantage to it, or see the necessity of it?

Mr. TIMMINS. I don't know that I can say I can see the necessity of it, yet I would say that I would agree that it might be the proper thing to do.

Mr. WHIPPLE. In other words, these subsidiary companies, you should be able to take their balance sheets and divide their assets up into three classes, if there are three classes.

Mr. TIMMINS. Yes.

Mr. WHIPPLE. If all their assets are in one class, they should be capable of such division, and the same way with the expenses of each subsidiary company.

Mr. TIMMINS. I think we can accomplish that and I can see some advantages in it.

Mr. WHIPPLE. And the accounts of the subsidiary companies should be gotten into such shape that you can show a profit and loss statement for the consolidated company?

Mr. TIMMINS. Quite so.

Mr. MORRIS. I do not believe on all the subsidiary companies—is it possible to show your profit and loss on two monthlies—semi-monthly?

Mr. TIMMINS. Well, it is a little hard sometimes to do that, and still in the gradual working out from month to month or year to year, you get that. Of course, the point Mr. Morris brings up there is the fertilizer.

Mr. MORRIS. Fertilizer, especially. The fertilizer business is a kind of annual or semiannual matter; it is seasonable commodity, but we try to do the best we can. While it might not be just exactly right this period, it will adjust itself in with another period. I do not think it would be very far off.

Mr. MORSE. Well, that, Mr. Timmins, would mean the profits of some period might be less than what they are actually for the losses, as the case might be.

Mr. TIMMINS. That is quite so.

Mr. MORRIS. On account of your not taking up these profits in the right period.

Mr. TIMMINS. What we meant was that it is a seasonable business, and in carrying your product along it is pretty hard to determine when you are manufacturing and not selling, to determine what your profits are going to be when you come to sell out. You can not make a profit on that stuff until you do really sell it and know what you are going to sell it for.

Mr. WHIPPLE. In other words, in some departments it would be fairer, and the profits must be determined on an annual basis.

Mr. MORRIS. Absolutely. This is a seasonable business.

Mr. WHIPPLE. Rather than on any shorter period.

Mr. TIMMINS. That is right.

Mr. WHIPPLE. You must have a complete cycle.

Mr. MORRIS. And, of course, profits on a monthly or on a two months' basis does not mean very much. Ours has always been an up and down proposition.

Mr. WHIPPLE. The only fair way to look at a business would be from a year or a complete cycle.

Mr. TIMMINS. I rather think so.

Mr. WHIPPLE. But there is another method, and this method of closing your books up on a two months' basis for some departments furnish very good statistical information. For instance, the meat department, I take it that holds true. Your carcass beef, where you sell it almost immediately, your profits are fairly well determined at the end of a shorter period than one year.

Mr. TIMMINS. That is quite true.

Mr. WHIPPLE. In some other department where you sell meat, that would be more of a seasonable proposition.

Mr. TIMMINS. Yes.

Mr. MORSE. Mr. Morris, how would you view the proposition as near as it could be made uniform, of a cost system for all the packers?

Mr. MORRIS. If you try to give us an economical system, and pick out the best points from all the packers, so as to get up the best system, and don't make it too complicated, I am heartily in favor of it. I think an awful lot of good can be done on it, if properly handled.

Mr. MORSE. That is what I mean, something not too complicated.

Mr. MORRIS. The help situation is pretty serious. What we want and what you want to give us is something that will cut down our clerical work as much as possible, rather than increasing it. I suppose we have got some good points in our system of accounting, and we have some bad ones. We are bound to have. Every one else is probably in the same shape. All have their weaknesses and strong points. I think that is something they really can do our industry some good in.

Mr. MORSE. You would welcome suggestions of that kind from the Government?

Mr. MORRIS. Yes; I would very strongly.

Mr. WHIPPLE. In other words, it simmers right down to the proposition, if you are going to regulate the packers, you must have uniformity all the way through in order to regulate them, to bring each one on the same basis with all the others.

Mr. MORRIS. I am not looking at it from that standpoint. I don't know whether that is necesary or not.

Mr. MORSE. As far as costs are concerned, Mr. Morris?

Mr. MORRIS. I suppose that the same costs can be derived in two different ways very often, and one can be as accurate as the other. The thing I am looking at is, if you give us better accounting, we can get the information that you want with less help, and whatever is best, we are heartily in favor of it.

Mr. WHIPPLE. What I meant to say was that I brought up the uniformity of the subsidiary company accounts with the parent company's account—and I think that is necessary to make the regulation effective all the way through, and I think that the system between the packers should be similar so you can make a comparison between the packers.

Mr. MORRIS. I think if your accountants can determine that that is feasible, that we would be in favor of it.

Mr. MORSE. Don't smile when you say, "if we can determine it is feasible"; don't smile at that.

Mr. WHIPPLE. Have you any opinion that it is not feasible?

Mr. TIMMINS. I do not know just how you might have to change the systems of the various companies. Probably you would not want to do anything that would disrupt an established system, and I do not know how much you might have to do.

Mr. WHIPPLE. Oh, you can not disrupt anything.

Mr. TIMMINS. If you can do it without disrupting them, and still keep an economical system and give us a little of the best, and take away a little of the worst, and do that with all of us, and bring about in that way a uniform system of establishing the cost, I can see where there would be some advantage to us probably.

Mr. MORRIS. I think you want to look at the fact pretty thoroughly that we are decreasing the help instead of increasing it, because the help is decreasing. We are substituting girls for men, and probably the majority of them are not as efficient.

Mr. MORSE. I was going to ask you that question.

Mr. WHIPPLE. Don't you feel it is also necessary before a uniform system can be worked out that your subsidiary companies should close their books at practically the same time as the parent company, and that the profits of the subsidiary companies should be reflected on a consolidated statement at the end of the year?

Mr. TIMMINS. They would be in our case; we close at the same periods.

Mr. WHIPPLE. In other words, you would not want a little bit of profit hanging over this fellow that was not shown on the consolidated statement at the end of the year.

Mr. TIMMINS. No; we show the same figures for all these companies, and it would all be reflected in a consolidated statement.

Mr. MORSE. Do you have any companies where you take up the profits, say at the end of the year, as a direct credit to profit and loss without going in to departments, or I should say to surplus?

Mr. TIMMINS. No.

Mr. MORSE. You haven't any companies you do that with?

Mr. TIMMINS. No; we have not. You take Joseph Stern & Sons; they have never paid any dividends, I am sorry to say. The Morris Fertilizer Co. has not, and those amounts all remain in surplus accounts, but in a consolidated statement you have got all of that, and in the companies in which we have a small interest we only take their profits as they declare a dividend. We do not control that.

Mr. MORSE. You take that up as other income?

Mr. TIMMINS. We take that up as other income; yes. Those amounts—those items do not amount to very much; indeed, they are very small items.

Mr. WHIPPLE. Under this method of consolidation you also believe that you can, in your company, get the same details on all your subsidiary companies and on all your branch houses that you can on the parent company; for instance, you can show the actual gross sales in all your branch houses and all subsidiary companies.

Mr. TIMMINS. You speak of all subsidiary companies. When you speak of branch houses, that is the point we got into yesterday, Mr. Chase.

Mr. CHASE. Yes.

Mr. TIMMINS. These branch houses, of which we have several hundred all around the country, it is just a selling proposition.

Mr. WHIPPLE. Don't you believe that would be a good idea to have that in such shape so you could determine the facts from those branch houses the same as you do from the home office?

Mr. TIMMINS. It would be almost impossible for the simple reason that they are just little selling branches and the man is an executive and salesman and bookkeeper and the whole thing.

Mr. WHIPPLE. Well, is it necessary for your branch houses in keeping their books or in reporting to you to net any figure rather than show your gross figures all the way through?

Mr. TIMMINS. He don't.

Mr. WHIPPLE. For instance, sales; why deduct anything for it? Why shouldn't he show you the gross figures?

Mr. TIMMINS. He does. He gives us the gross sales and the gross profits and the total expenses, and the difference between the gross profits and the total expense is the profit or loss at that branch house for the period.

Mr. WHIPPLE. And if that is determined, you have no trouble getting the same information for your branch houses that you have for your parent houses. Now, as a matter of fact, the matter of sales, is not that rather an accounting proposition of how you want to treat it? That is, I mean providing you can at the end of the period get the same information all the way through; that is, I mean if you want to compare the selling price of your branch houses, that would not have anything to do with your accounting features, which you could determine at the end of the year if all the information was there?

Mr. TIMMINS. Not at all.

Mr. WHIPPLE. I do not see that that would affect the statistical information you can get from the branch houses, irrespective of any other method.

Mr. TIMMINS. Not at all.

Mr. MORSE. Do you carry control accounts on your ledgers with your branches as to sales?

Mr. TIMMINS. No; not as to sales.

Mr. MORSE. In order to find out the total sales of any branch, you would have to go to the branch books? They are not on the books of the home company?

Mr. TIMMINS. No; they are not.

Mr. WHIPPLE. Could you get that from your branch-house reports?

Mr. TIMMINS. Yes.

Mr. WHIPPLE. You could build up controls from your branch-house reports?

Mr. TIMMINS. Yes; you could build up statistical information that would give you that.

Mr. MORSE. There are no control accounts, what we know as control accounts, with your branch houses of sales?

Mr. TIMMINS. Not at all.

Mr. MORSE. Would it cause you any more labor or inconvenience or operate against your best interests in any way if you had control accounts of your branches?

Mr. TIMMINS. I think it would cost us a good deal more money to operate.

Mr. MORSE. Suppose, for instance, your control accounting was built up once a week or once a month so as to show the totals; of course, if you wanted to know how much any particular man owed you, you could go to the branch books, you would not need to carry

that at the main office unless you wanted to. Do you think a scheme of that sort would be feasible?

Mr. TIMMINS. I think it is far better, Mr. Morse, to keep it off of these books, and whenever you want any information get it from the reports that would be furnished.

Mr. MORSE. Why?

Mr. TIMMINS. I think it would be very much more simple and easier to handle.

Mr. MORRIS. And take less help?

Mr. TIMMINS. And take less help and give you the same information.

Mr. MORSE. Don't you think that information anyhow—I am more or less familiar with your system—I do not know as I should say your system, but the system of the packers having traveling auditors going around to the different branches and drawing off the bills and reporting to the home office; at least you could obtain the information from their reports necessary to build up the control. I should think that that might be very useful to you.

Mr. TIMMINS. I can not see just where it would help us, and it does seem to me it would take considerable more help to build up that control; and, as I say, from the reports which we do get from them we could compile any necessary figures that you might want or that we might want.

Mr. MORSE. Well, that is a proposition I am not so much interested in.

Mr. WHIPPLE. So, by your report system, at the end of a given period you could consolidate your businesses as a whole and draw off what you might call a complete profit-and-loss statement for your entire organization.

Mr. TIMMINS. We do do that.

Mr. WHIPPLE. Have you such a profit-and-loss statement; that is, detailed profit-and-loss statement?

Mr. TIMMINS. Yes; we make up those profit-and-loss statements.

Mr. WHIPPLE. Showing gross sales or net sales?

Mr. TIMMINS. We do not show the sales, but we do show the profit and loss; we don't bring the sales into it.

Mr. WHIPPLE. And showing your expenses?

Mr. TIMMINS. No; it shows the net.

Mr. WHIPPLE. Have you any information you could get up to show those?

Mr. TIMMINS. Probably not with our present system of accounting. That was brought out yesterday—without doing quite a little more statistical work.

Mr. WHIPPLE. Well, that is what I mean. From these reports you should be able to gather all that information.

Mr. TIMMINS. Well, our reports are not made up at the present time so you could show the sales—gross, expense, and net.

Mr. MORSE. In other words, that information is in the main office, but you could get it if you had to?

Mr. TIMMINS. Well; bringing it to our main office report, is what you are speaking of?

Mr. WHIPPLE. Yes.

Mr. TIMMINS. We haven't that in our main office; it does not give us that at the present time.

Mr. WHIPPLE. Don't you think in order to make this regulation effective, and make your business uniform all the way through, you have eventually got to have that information here or make arrangements to have it here, either in the form of keeping books by control accounts or by complete system of auditor's reports, at the end of a given period?

Mr. TIMMINS. Well, I think that probably will be worked out by the accountants, in determining what is the simplest method to produce the results which you really feel are necessary.

Mr. MORSE. By accountants you mean, Mr. Timmins, the uniform accounting system that is now being agitated?

Mr. TIMMINS. Yes.

Mr. MORSE. And talked over between the Federal Trade accountants and the packers?

Mr. TIMMINS. Yes; I think they will get together on some scheme that will be satisfactory to everybody.

Mr. WHIPPLE. I do not know—but I can not find it in the Canadian regulations, but the Canadian regulations make provision whereby the parent company, or a company holding 50 per cent or more of the capital stock of any company, can be ordered by the minister or whatever they call him—what is that, the minister of finance?

Mr. CHASE. The receiver general, I think it is.

Mr. WHIPPLE. The receiver general in Canada can compel the corporation holding 50 per cent to include the profits of that partly owned or controlled company in with the profits of the parent company. Now, have yo any such conditions at the present time, wherein you hold only a percentage of the stock?

Mr. TIMMINS. Yes, we have.

Mr. WHIPPLE. And do you understand these regulations to mean, these present regulations, that the Food Administration can compel you to bring the profits of that corporation into your own profits and deduct them from the profits?

Mr. TIMMINS. I do not know that the few we have would be material.

Mr. WHIPPLE. You do not?

Mr. TIMMINS. No.

(The provision of the Canadian rules and regulations read to Mr. Timmins by Mr. Chase.)

Mr. WHIPPLE. Now, that would apply to any company, no matter how small the holding was in it, wouldn't it, Mr. Chase?

Mr. CHASE. Yes, if he wanted to bring it in.

Mr. WHIPPLE. Now, is there any such provision in our regulation?

Mr. CHASE. No.

Mr. TIMMINS. No, there is not.

Mr. WHIPPLE. Wouldn't it be an advantage to our regulations if that were inserted?

Mr. TIMMINS. I can not see where it would be any advantage to us, because you get that same regulation on the individual companies. You have the same control of it.

Mr. WHIPPLE. You see in this case we went into the question of the stockyards before; in the case of the stockyards, where you hold a small percentage of stock, under the Canadian regulation, you could be compelled to consolidate that profit from your stockyards with

the profits of your ordinary business, and they would be considered under the 15 per cent or 9 per cent regulation.

Mr. CHASE. You could not do that because the rule announced now excludes stock.

Mr. WHIPPLE. Yes.

Mr. CHASE. There might be a business, for instance, the butterine business, in which they owned 70 or 80 per cent of the stock.

Mr. TIMMINS. We have got a butterine business, for instance, that we bring right in with our general business, anyhow.

Mr. CHASE. Your 100 per cent business?

Mr. TIMMINS. Yes.

Mr. WHIPPLE. These are businesses of less than 50 per cent.

Mr. TIMMINS. Yes, I can not see very much. For instance, take an outside butterine company. If we held any stock in it, where we held less than 100 per cent, I do not see really very much advantage of bringing it in. You will have the same control of it.

Mr. WHIPPLE. It might not affect your business particularly, but it may affect others.

Mr. TIMMINS. I don't know what the others will be; I can not see where it will affect us, or what advantage it will be to us, because as I say, if you have the same control over the one company or the combined companies, you have all you can have there.

Mr. WHIPPLE. You see in the Canadian regulation that rests with the decision of the Receiver General of Canada, and that provision would only be used at times when the receiver general thought it would be of advantage.

Mr. TIMMINS. You could, I suppose, give the same power to the Federal Trade Commission here, but as I say, I do not see where it would do us any good, either the Government or the individual or the corporation. I do not just see the advantage of it.

Mr. WHIPPLE. I think the provision would be a very good one, and could be exercised in the discretion of the people interested.

Mr. TIMMINS. Well, I can never see any disadvantage in giving to the proper arm of the Government the power to act in an emergency.

Mr. MORSE. Now, Mr. Morris, I am handing to you some figures compiled by Mr. Chase, as to the net worth of the five big packers and as to the class of profits—as to the amount of profits in classes 1, 2, and 3, together with the total profits. I understand that these figures are based upon the past four months, averaged over the period of a year. If you will look over these carefully, you will see that there is a great variation in the percentages of the different classes, as between Armour, Swift, yourself, Wilson and Cudahy.

Have you any explanation why there should be such a big variation in these percentages, while the total of these percentages work down pretty near even—I should not say even—they work down pretty well, so the variation is not so great.

Mr. MORRIS. Didn't we just go over that question? You refer to which in here [indicating]?

Mr. MORSE. This one down here [indicating]. Will you please read the question.

(Question read.)

Mr. MORRIS. I think the variation would depend somewhat on how assets are carried on the books, and also the type of business the different concerns do.

Mr. MORSE. Mr. Morris, I do not think of anything else I want to ask you at the present time. Is there anything you would like to say regarding the entire proposition?

Mr. MORRIS. No. I wish you would get your opinion straightened out on the hazard part of it. I believe if you had an opportunity to work in a packing house even for a short time, in an executive position, you would realize that it is the most hazardous business there is.

Mr. WHIPPLE. That is the reason it is very fine to bring out these things, so we can gather the idea, and we will undoubtedly, before we get through, form an opinion on it. As far as I am concerned, my mind is perfectly clear and I am willing to hear all sides of the question. I am perfectly willing to be enlightened on it.

Mr. CHASE. I notice in these figures, Mr. Morris, that you are to be allowed in your total business 22 per cent on your net worth; that is capital and surplus, for the coming year. That is an estimate, of course—the best estimate that can be made on the records that have come in. Have you any idea of whether that is more or less than you have made in the past on the total business?

Mr. MORRIS. I should think it would be more than we have earned on our total business.

Mr. CHASE. Do you think that that is a reasonable allowance for you under all the circumstances?

Mr. MORRIS. I do for this reason: You fellows do not realize that our profits that have been made, have been on an advancing market. The probabilities are that the markets will go up rather than down while the war lasts. When this market goes down, we are not going to show so good. We are going to have mighty hard work to split even. You take on last year's business, the big part of the profit was made on the advancing market. Do you see what I mean?

Mr. CHASE. Yes; I see what you mean.

Mr. MORRIS. You get us up there and then you dump us.

Mr. CHASE. So you feel you ought to be assured against that period?

Mr. WHIPPLE. You feel you ought to be protected both ways?

Mr. MORRIS. If you are going to limit our profits going up, and not going down, we feel that our profit going up should be enough to protect us going down. After this war is over, meats won't stay up to these prices, I do not think.

Mr. CHASE. Is it your opinion, Mr. Morris, that you can earn the coming year your whole profit according to the regulations of the Government?

Mr. MORRIS. I think so.

Mr. MORSE. You think the probabilities are you will?

Mr. CHASE. You have tried to.

Mr. MORRIS. With any regulation, I see very few people that bump their heads on the top. There is usually a top there, and people don't hit the top. What it will be next year, I do not know. If the top is lower, what you make would be lower and you still would not hit the top.

Mr. MORSE. I think that is all. We appreciate your courtesy very much, Mr. Morris.

(Whereupon, at 1 o'clock p. m., on the 11th day of June, 1918, the hearing of the above-entitled matter was concluded.)

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